MICROFINANCING AS AN INCLUSIVE FINANCIAL PARADIGM AND ITS VIABILITY AS A SOCIAL BUSINESS ENTERPRISE IN AUSTRALIA

A thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy

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DEDICATION

To my late father, Professor Muhammad Isa, a scholar of high eminence, who valued knowledge above everything.

DECLARATION

I certify that except where due acknowledgement has been made, the work is that of the author alone; the work has not been submitted previously, in whole or in part, to qualify for any other academic award; the content of the thesis is the result of work which has been carried out since the official commencement date of the approved research programme; any editorial work, paid or unpaid, carried out by a third party is acknowledged; and, ethics procedures and guidelines have been followed.

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LIST OF ABBREVIATIONS

ABS	Australian Bureau of Statistics
ACAC	Australian Conciliation and Arbitration Commission
ACCC	Australian Competition & Consumer Commission
ACCION	ACCION International
ACE	Access to Capital for Entrepreneurs
ACL	Australian Credit License
ACOSS	Australian Council of Social Service
ACNCA	Australian Charities and Not-for-profits Commission Act
ACNCR	Australian Charities and Not for Profits Commission Regulation
ACT	Australian Capital Territory
ADB	Asian Development Bank
ADI	Authorised Deposit-taking Institutions
AEO	Association for Enterprise Opportunity
AFIN	Australian Financial Inclusion Network
AFMA	Australian Financial Markets Association
AFSL	Australian Financial Services License
AGD	Attorney General's Department
AIHW	Australian Institute of Health and Welfare
AM	Area Manager
ANZ	Australia and New Zealand Banking Group
AO	Area Office
APP	Australian Privacy Principles
APRA	Australian Prudential Regulation Authority
APR	Annual Percentage Rate
APSC	Australian Public Service Commission
ASA	Association for Social Advancement
ASIC	Australian Securities and Investments Commission
ATC	Australian Trade Commission
ATO	Australian Taxation Office
ATSIC	Aboriginal and Torres Strait Islander Commission

AUCLA	Australian Uniform Co-operative Laws Agreement
AUD	Australian Dollar
AWGEA	Australian Workplace Gender Equality Agency
AWPA	Australian Workforce and Productivity Agency
BA	Bank Australia
BB	Bangladesh Bank
BCFP	Bureau of Consumer Finance Protection
BCG	The Boston Consulting Group
BCNA	Business Center for New Americans
BDT	Bangladeshi Taka
BEC	Business Enterprise Centres
Bendigo Bank	Bendigo and Adelaide Bank Ltd
BKB	Bangladesh Krishi Bank
BM	Branch Manager
BMG	Bentley Microfinance Group
BO	Branch Office
BRAC	Bangladesh Rurual Advancement Committee
BSL	Brotherhood of St Laurence
BST	Business Tax Number
CA	Capability Approach
CBA	Commonwealth Bank of Australia
CC	Center Chief
CEO	Chief Executive Officer
CDFIF	Community Development Financial Institution Fund
CDFI	Community Development Financial Institution
CDFP	Community Development Finance Pilot
CEDA	Committee for Economic Development for Australia
CFR	Council of Financial Regulators
CFTC	Commodity Futures Trading Commission
CGAP	Consultative Group to Assist the Poorest
CM	CentreManager

COA	Commonwealth of Australia
COB	Customer Owned Bank
COBA	Customer Owned Banking Association
CRA	Community Reinvestment Act
CSB	Community Sector Banking
CSEL	Community Sector Enterprises Ltd
CSI	Centre for Social Impact
CSR	Corporate Social Responsibility
CT	Commonwealth Treasury
DFID	Department for International Development
DGM	Deputy General Manager
DGR	Deductible Gift Recipient
DMD	Deputy Managing Director
DMS	Default Management Strategy
DOIA	Department of Indigenous Affairs
DOSS	Department of Social Services
DOT	Department of Treasury
EF	Emergency Fund
ENYA	Enterprise Network of Young Australians
EPL	Ethical Poverty Line
EQ	Earning Quality
ERC	Economics Reference Committee
FCC	Fitzroy and Carlton Cooperative
FCCCC	Fitzroy and Carlton Community Credit Cooperative
FCF	Foresters Community Finance
Fed	Federal Reserve
FDIC	Federal Deposit Insurance Corporation
FFA	Fair Finance Australia
FFIEC	Federal Financial Institution Examinations Council
FHFA	Federal Housing Finance Agency
FIELD	Fund for Innovation, Effectiveness, Learning and Dissemination

FLF	Fair Loans Foundation
FNACU	First Nations Australian Credit Union
FNF	First Nations Foundation
FRS	Federal Reserve System
FRSR	Federal Reserve Statistical Release
FSOC	Financial Stability Oversight Council
GA	Grameen America
GB	Grameen Bank
GBM	Grameen Bank Model
GBP	Grameen Bank Project
GABV	Global Alliance for Banking on Values
GC	Grameen Communications
GCD.C.	Grameen Communications Data Centre
GCS	Grameen Classic System
GDP	Gross Domestic Product
GEMS	Global Entrepreneurship Monitor Survey
GFC	Global Financial Crisis
GF	Group Fund
GFF	Good Faith Fund
GGS	Grameen Generalized System
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GMS	Good Money Stores
GOA	Government of Australia
GSM	Good Shepherded Microfinance
GT	Grameen Trust
HELOC	Home Equity Line of Credit
HRA	Human Rights Approach
HREC	Human Research Ethics Committee
HREOC	Human Rights and Equal Opportunity Commission
IBA	Indigenous Business Australia
ICT	Information and Communication Technology

IEPL	International Extreme Poverty Line
IEPL	International Extreme Poverty Line
IFC	International Finance Corporation
ILO	International Labour Organisation
IMC	Information Management Centre
IMF	International Monetary Fund
IRD	Institute for Regional Development
ITIL	Individual Taxpayer Identification Number
ITL	Infosys Technologies Ltd
ITIN	Individual Taxpayer Identification Number
KYC	Know Your Customer
LMI	Low and Medium Income
LQ	Loan Quality
MA	Monetary Approach
Manyrivers	Many Rivers Microfinance
MCCA	Ministerial Council on Consumer Affairs
MCU	Maleny Credit Union Ltd
MD	Managing Director
M & E	Monitoring and Evaluation
MDGs	The Millennium Development Goals
MDO	Microenterprise Development Organisation
MES	Mainly English Speaking
MFO	Microfinance Organisation
MIAESR	Melbourne Institute of Applied Economic and Social Research
MIS	Management Information System
MNC	Multinational Company
MOU	Memorandum of Understanding
MQ	Management Quality
MRA	Microfinance Regulatory Authority
NAB	National Australia Bank
NAMA	National Agenda for a Multicultural Australia

NCCP	National Consumer Credit Protection
NCIF	National Community Investment Fund
NCPA	National Consumer Protection Act
NCUA	National Credit Union Administration
NSPS	National Social Protection Strategy
NEIS	New Enterprise Initiative Scheme
NFP	Not for Profit
NGO	Non-Government Organisation
NILS	No Interest Loan Scheme
NIM	Net Interest Margin
NSWP	New South Wales Parliament
NSW	New South Wales
NWLC	National Women's Law Center
OAIC	Office of the Australian Information Commissioner
OCC	Office of the Comptroller of the Currency
OECD	Organisation for Economic Co-operation and Development
OLDP	Office of the Legislative Drafting and Publishing
OPEX	Operating Expense
OT	Operational Transparency
Oxfam	Oxford Committee for Famine Relief
PA	Participatory Approach
PCEO	President and Chief Executive Officer
PGA	Participant Grameen America
PGB	Participant Grameen Bank
PGT	Participant Grameen Trust
POA	Proof of Address
POV	Parliament of Victoria
PPP	Purchasing Power Parity
PS	Personal Savings
PWG	President's Working Group on Financial Markets
QCOSS	Queensland Council of Social Service

QO	Quality of Operation
QPC	Queensland Parliamentary Counsel
RBA	Reserve Bank of Australia
RDA	Relative Deprivation Approach
RD	Regional Director
RMIT	Royal Melbourne Institute of Technology
RM	Regional Manager
RO	Regional Office
SARFIT	Structural Adaptation to Regain Fit
SBA	Small Business Administration
SCACS	Senate Community Affairs Committee Secretariat
SDA	Social Development Agenda
SDGs	Sustainable Development Goals
SDI	Subsidy Dependency Index
SEA	Social Exclusion Approach
SEC	Securities and Exchange Commission
SEM	Social Exclusion Monitor
SEDIF	Social Enterprise Development and Investment Fund
SNP	Safety Net Programme
SNAP	Supplemental Nutrition Assistance Program
SPP	Strategic Project Partners
SRM	Social Responsibility Movement
SS	Special Savings
SSN	Social Security Number
TCU	Traditional Credit Union
UDHR	Universal Declaration of Human Rights
UNHCHR	United Nations High Commissioner for Human Rights
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNMD	United Nations Millennium Declaration
UNDP	United Nations Development Programme
UN	United Nations

UNGC	United Nations Global Compact
USAID	United States Agency for International Development
USDHHS	United States Department of Health and Human Services
USA	United States of America
USCB	United States Census Bureau
USD	United States Dollar
WACOSS	Western Australian Council of Social Service
Westpac	Westpac Banking Corporation
ZM	Zonal Manager

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PUBLICATION ARISING FROM THIS THESIS

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ABSTRACT

The inclusive nature of the Grameen Bank (GB) model and its effectiveness in addressing issues of poverty and financial exclusion in developing countries are widely recognised. However, its efficacy as a strategy in advanced economies remains under-researched. More so, there appears to be no study undertaken exploring the possibility to establish a microfinance social business enterprise in the Australian socioeconomic context. The current circumstances of the Australian economy, and policies being pursued to manage it, have made this research all the more important.

Australia is regarded as a wealthy country and has experienced about two decades of continuous economic prosperity, spurred by a mining boom (Das, 2013). However, not all Australians have benefited equally from the wealth that has been created. As a so-called welfare economy, Australia has institutionalised a comprehensive safety net programme (SNP) as the principal strategy for supporting the relatively low-income population. With an estimated *20% people below the 60% median poverty line* (Dorsch et al., 2016: 11*)*, *17% of adult population* (Connolly, 2014b: 5) financially excluded, and about one-third of the total labour force of the country on part-time and casual employment, the need for an alternative strategy to connect the unemployed and underemployed low-income working age Australians to the economic value chain is an imperative. Approximately, one-third of the Federal budget is committed for SNP. Notwithstanding, the gradual slowing down of the economy exacerbated by the fallout from the global financial crisis, the management of the Australian economy has come under increasing scrutiny.

The global microfinance movement, inspired by the example of GB, motivated the Australian Government to establish a Community Development Finance Pilot in 2009, and a Social Enterprise Development and Investment Fund in 2010, to explore fair and affordable financial services for the financially excluded low-income individuals. A burgeoning of microfinance organisations: not for profit companies (i.e. benevolent or charity entities), unincorporated entities, and credit unions, supported by the Government and corporates, populate the microfinance sector. Despite reported positive social and economic impact, Australian microfinance organisations are found to be financially nonviable over the medium-to-long-term, providing mostly consumer loans as opposed to microenterprise loans for self-employment, and serving only a small number of financially excluded low-income people. The sector is essentially

at the crossroads. Against this backdrop, this thesis investigates the replicability of microfinance social business model of GB in Australia.

Adopting a qualitative paradigm with a constructivist epistemology, this research assumes the theoretical perspective of phenomenology which espouses that the construction of meaning and its effectiveness are the results of individual experiences of a phenomenon. In this instance, microfinance practices in different sociocultural settings are explained from everyday experiences of practitioners, clients and broader stakeholders who are directly and indirectly impacted by microfinance operations.

This thesis involves three inter-related studies. Study 1 is an evaluation of the suitability of establishing a microfinance social business in Australia. The study is supported by a poverty and inequality mapping and a critical analysis of the existing microfinance market and its nature. Respectively, Studies 2 and 3 are exploratory and explanatory case studies of GB in Bangladesh, and its replication, Grameen America (GA) in the USA. The GA model investigated from the perspective of examining the process of adaptation of the GB paradigm in a developed economy with similar socioeconomic characteristics to that of Australia. Supported by multiple sources of extant literature, all the three studies used primary data obtained through semi-structured interviews of microfinance practitioners and stakeholders.

Institutional theory and contingency theory of organisations provide the theoretical lenses through which complexities of society, institutions, and the underlying dynamics of the growth are viewed. These two theories helped to explain the adaptation process of GB replication across different social and economic contexts.

Study 1 identified a potential market for microfinance social business in Australia. A number of institutional and legal barriers were identified, and an apparent institutional anathema to undertaking social-collateral microfinancing model was investigated and explained. The case studies of GB and GA illustrated socioeconomic and regulatory challenges in their respective countries, and demonstrated the process of adapting and responding to both institutional and non-institutional factors. The cross-country findings of the three studies highlighted the contextual differences, adaptation strategies, and identified the key attributes necessary for the foundation of a potential microfinance social business model for Australia.

This thesis has a number of implications for theory, policy, and practice in the implementation of inclusive and socially relevant microfinance social business enterprises in the Australian context. The research contributes to the theoretical understanding of microfinance as a social business from the perspectives of design and delivery system; GB model's conflict with the precepts condoning the solely profit-driven non-inclusive growth paradigm; distributive justice and equity in lending; and culminates in the development of a conceptual framework of a microfinance social business for consideration and application in different socioeconomic and regulatory environments.

Chapter 1 Introduction

1.1 Preamble

The reduction of poverty gained institutional impetus after the World Summit on Social Development in Copenhagen in 1995 where 117 countries adopted a declaration and programme of action to eradicate global poverty (UN, 1995). The consensus was to foster social integration and implement concrete measurable actions by the signatory countries. Australia is one of the signatories of the Copenhagen Declaration.

Poverty, both a cause and consequence of a deprivation trap (Chambers, 1983), is exacerbated due to iniquities attributed to structural factors. Structural causes of poverty can be alleviated by institutional mechanisms to enable equal opportunities for poor people to access material resources (Nevile, 2005). According to a UNDP (2012) task force:

> *Addressing inequalities in the post-2015 development agenda means looking at both equality of opportunities (or lack thereof), and entrenched structural factors, including discrimination, all of which effect equality of outcomes* (8).

A common policy followed by welfare states (Soelter, 2007; Marcuzzo, 2005; De Regil, 2001) is to ameliorate the sufferings of relatively income-poor citizens through strategy such as the social safety net programme (SNP), or through limited scale, low interest or interest free microfinance opportunities provided by Community Development Financial Institutions (CDFI). These organisations are to a large extent dependent on Government grants, and corporate and private philanthropic donations. Most of their products are consumer loans unlike microenterprise loans provided by Grameen Bank (GB) in Bangladesh.

Microfinance with a focus on self-employment and income generation is an alternative model pioneered by GB. The strategy of this model is to connect financially disadvantaged people to the economic value chain and to increase their income, assets, and ultimately their living standards (Yunus, 1987a). The GB model gained world-wide recognition for its financial inclusion and poverty alleviation outcomes (Alex, 2012; Barman et al., 2009; Bilby, 2012; Bornstein, 1997; Bjerg, 2013). Within this context, this thesis examines the efficacy of using microfinance as a financial inclusion tool for the low-income, and financially excluded individuals in Australia.

This thesis incorporates three studies: Study 1: Microfinance Social Business in Australia, Study 2: A Case Study of Grameen Bank (GB), and Study 3: A Case Study of Grameen America (GA). The purpose of Study 1 is to investigate the appropriateness of microfinance social business of GB in Australia. Therefore, Study 2 examines the features and efficacy of GB's institutional strategy in addressing evolving needs of its customers and its replicability in different social and economic contexts. Study 3, being a replication of GB in the USA, investigates the adaptability of GB microfinance approach in a developed country's socioeconomic contexts.

1.2 Context and Relevance

Income inequality is not a phenomenon confined only to economically poorer countries. Developed nations like the USA, Britain, and Australia, demonstrate growing income inequality among their population (Whiteford, 2012). Evidence suggests that the average wellbeing of societies is no longer dependant on national income, but on relative incomes of citizens (Rowlingson, 2011). Despite significant progress during the last sixteen years since the launching of the time-bound Millennium Development Goals (MDGs) (UN, 2013) in 2000, the income inequality among both nations and people persisted (Oxfam, 2013b) requiring extension of the goals and expanding the works beyond 2015. *The Sustainable Development Goals* (SDGs) (Jahan, 2015: 15), anchored in the millennium declaration of 2000 of MDGs (UN, 2015; UN, 2000), embrace the triple bottom-line approach of *economic development, environmental sustainability, and social inclusion* (Sachs, 2012: 2208) as the shared focus, and a broad consensus to build the future of mankind.

Similar to MDGs, SDGs are essentially *moral and practical commitments (Sachs, 2012: 2210)*, and therefore, without specific policy formulation supported by enforceable legal mechanisms, the outcomes against each goal would be hard to achieve. Sustainability, being the enduring theme, effective involvement of private sector along with public sector and civil society will be essential from the perspectives of financing, implementation and innovations required to achieve inclusiveness in programme delivery, especially to ensure that the benefits flow down to the poorest segments of the population.

The United Nations Development Programme (2014a) reported that more *than 2.2 billion people are vulnerable to multidimensional poverty, including almost 1.5 billion who are multidimensionally poor* (19), and many disadvantaged groups have been left behind in the face of growing inequality in both the developing and developed countries (Stiglitz, 2012; OECD, 2008; Ryan, 2014). The extant literature (Saunders et al., 2014; Harding and Szukalska, 2000; McLachlan et al., 2013; Phillips et al., 2013; MIAESR, 2012; Saunders, 2003) reveals that a large segment of the Australian population is experiencing inequality, poverty and multiple forms of discrimination. This is, despite a comprehensive social safety net programme (SNP).

Therefore, to reduce inequity, and dependence on state doles, the economic management needs to embody strategies oriented towards capability enhancement (Sen, 1993; Robeyns, 2006) of the income-poor citizens by removing systemic barriers (Yunus, 1987b; UNDP, 2014b) to access socioeconomic opportunities as a matter of right and not as a privilege or handouts (Robinson, 1997; Yunus, 1998a).

The next four sections in this chapter elaborate on income inequality and poverty, microfinance, social business, and the concept of inclusiveness in social, political and economic development. A review of these key concepts is necessary for understanding the implications, relevance and significance of this thesis.

1.3 Income Inequality and Poverty

Income inequality can be regarded as a measure of poverty (Caterina et al., 2003; Henderson, 1975a). The wider levels of inequality represent an acute depth and nature of poverty. (McKay, 2002). As a construct, inequality can be employed as a criterion for comparing citizens in a society and for understanding the relative nature of poverty in developing and developed economies.

In Australia, *the top 20% of income earners receive 50% of total income, while the bottom 20% earn a mere 5%* (Gallet, 2010: 4). In relation to this income gap, the former Australian Federal Treasurer, the Honourable Mr. Joe Hockey stated that:

> *While income tax is by far our largest form of revenue, just 10 per cent of the population pays nearly two-thirds of all income tax. The welfare expenditure, being 35 per cent of the federal budget is more than is spent on health, education and defence. This spending will not be sustainable and that in the years to come we will not be able to adequately assist those in genuine needs* (Tingle, 2014: 1,6).

Saunders, Bradbury, and Wong (2014) reported that an estimated 4.03 million or 18% of the total Australian population, including 25.5 % children lived below the poverty line during 2011-12. The above estimate is based on the criterion of 60% of median income adopted at the 2001

European Union Laeken summit (Notten and Neubourg, 2007; Immervoll et al., 2006). This benchmark is regarded *as a threshold at which the people are vulnerable and at risk of falling into poverty in developed economies* (Förster et al., 2004: 6). Since, this poverty is relative in nature (Caterina et al., 2003; Henderson, 1975a; MIAESR, 2012), manifestation of experienced deprivation and hunger in Australia is not as acute and extreme like some of the poorest countries in the world (AI, 2014; APS, 2014; Sen, 1981; Townsend, 2006b). People at high risk of poverty are likely to be part of unemployed households, single people over 65 years, associated with households reliant on social security payments, to have a disability, lone parent families and working age outside the labour force (Saunders et al., 2014). Depending on the nature of their risks and vulnerabilities, the extent of deprivation and associated consequences vary (ACOSS, 2012c; AGD, 2005; Saunders and Adelman, 2005).

1.4 Microfinance

In the common parlance, microfinance is viewed as small loans and various forms of financial services availed by low-income individuals from formal and informal sources dispensed under the broad nomenclature of microfinance. There is a tendency to use the term microfinance by fringe lenders or providers of credit at exploitative terms and conditions to the financially excluded and economically marginalised individuals. Therefore, loans that are not dispensed under proper institutional mechanism to address the issues of financial exclusion and in broader terms poverty alleviation are outside the scope of microfinance.

The demand for small credit existed in various forms in all societies and cultures (Mosley, 1996; de Aghion and Morduch, 2005) even prior to the use of microfinance as a tool for financial inclusion (Barman et al., 2009; Conroy, 2008; Dacanay et al., 2011) , self-employment (Yunus, 1987a; McKernan, 1996), and in broader terms, poverty alleviation (Yunus, 2003b; Holcombe, 1995). The presence of fringe lending in Australia (Infosys, 2009; Wilson, 2004), and various forms of informal money lending in both developing (Guirkinger, 2008; Khandker, 2000) and developed economies (Schmitz, 2014; Shih, 2011) are examples of such demand.

The prevailing microloans in the fringe market and informal money lending, mentioned above, are universally acknowledged to be exploitative in nature and entrap clients into debilitating debt traps (Stegman and Faris, 2003; Malbon, 2005).

Yunus (1983) put it succinctly when he said that:

> *The primary purpose of an usurious moneylender is to set up an economic relationship with such terms and conditions that one can bleed the client white. The terms of the deal are fixed in such a way that the client is never able to pay back the principal and as a result loses the collateral, making him ready for another loan to carry on the process until the dead end* (3).

However, microfinance can be a powerful financial inclusion tool when dispensed with appropriate institutional mechanisms and well-defined criteria (Sowey, 2011; Yunus, 2002; Cabraal, 2010; Khandker, 1996). It became a popular tool based on the experience of an action research project launched in 1976 by the Nobel Prize winning Professor Muhammad Yunus in Jobra village near Chittagong University, Bangladesh (Fuglesang and Chandler, 1993; Yunus, 1982).

Grameen Bank (GB) uses the term microcredit for its financial services. Though, there are differences among practitioners in the use of the term microfinance and microcredit, both the terms denote providing small loans and savings services to the financially excluded people who are not eligible for loans and other associated banking services under conventional banking principles (Ledgerwood, 1999; Morduch, 1999). The *differences are semantic, rather than substantive* (Qudrat-I Elahi and Rahman, 2006: 478). For the purpose of this thesis, the terms microcredit and microfinance are used interchangeably for describing various forms of financial services provided to low-income individuals who have difficulty in accessing services from mainstream banks and financial institutions. Ledgerwood (1999) described microfinance as a development tool that includes the following list of activities:

> *Small loans, typically for working capital; informal appraisal of borrowers and investments collateral substitutes, such as group guarantees or compulsory savings; access to repeat and larger loans based on repayment; streamlined loan disbursement and monitoring and secure savings products* (1).

Depending on the nature and purpose of microfinance, its mode of delivery, institutional mechanisms and socioeconomic impacts vary widely. Therefore, any form of a small loan, dispensed without a clear socioeconomic purpose of financial inclusion, falls outside the scope of microfinancing principles enshrined in the GB model.

1.4.1 Forms of Microfinance

There are various forms of microfinance depending on interest rates, target groups, nature of loan products like white goods or consumer loans versus microenterprise loans, pay day loans, among others (Burkett, 2011; Yunus, 2002). The impact of microfinance on financial exclusion, income inequality, and overall wellbeing of recipients varies widely (Isa and Alam, 2011; Khandker and Samad, 2013; Sengupta and Abuchon, 2008; Westover, 2008; Mitra, 2009).

Microfinance as a stop gap solution for temporary financial hardship is prevalent in most societies where the impoverished people borrow at rates and terms that are often exploitative. It is common for people in financial hardship to borrow beyond the market rates for premeditated consumption purposes in order to meet immediate financial needs and to avoid short-term hardship which has long term repercussions. In most cases, such borrowing pushes individuals into spiralling debt trap (BP, 2012; Infosys, 2009). This form of microfinance is often referred to as payday loans associated with pawnshop lending, check cashing outlets, and cash converters, amongst others (Infosys, 2008; Melzer and Morgan, 2015; Morgan, 2007; Morse, 2011; Prager, 2009).

The search for timely, ethical, and socially responsible institutional mechanisms to connect low income and financially excluded individuals in Australia gained momentum since 2003. Both private sector and the Australian Government were involved in this search. For example, in 2009, the Australian Government established Community Development Finance Pilot (CDFP) as a way of providing fair and affordable financial services for financially excluded low income people (Plant and Warth, 2013). In 2010, the Social Enterprise Development and Investment Fund (SEDIF) was established by the Australian Government to enable the social enterprises to access capital to grow their operations and to increase the impact of their community works. The long-term purpose of this fund was to facilitate the impact of investments that delivered positive socioeconomic outcomes for the low-income Australians (Plant and Warth, 2013).

In Australia, the emergence of microfinance can be attributed to failures of mainstream financial institutions in addressing problems of financial exclusion. The mainstream financial markets regard income-poor population as unattractive and risky for failing to meet prudential criteria for lending (Burkett and Sheehan, 2009).

It is noteworthy; however, that in most countries there is no cap on interest rates, or has limited government control on private money lending. In the UK, there is a very weak control over interest rates. Connolly (2014a) reported that:

> *The countries like South Africa, Australia, some provinces in Canada, and some states in United States impose a moderate cap on interest and fees for the payday lenders with a resultant Annual Percentage Rates (APR) ranging between 60% and 200%. In the UK, APRs advertised by most payday lenders are between 4000% and 6000%, and in Russia they are between 600% and 800%. The only exception in this group is Bangladesh, where financial inclusion has been tackled through microfinance rather than through regulation* (19).

Therefore, those unable to access formal financial markets are forced to borrow from informal sources at usurious interest rates.

1.5 Social Business

According to Spector (2008), the current social responsibility movement (SRM) dates back to the early years of the Cold War period of 1945 -1960. Spector (2008), argued that the SRM was to safeguard the interest of free-market capitalism against the perceived threat of Soviet Communism. In the 1970s, the corporate social responsibility (CSR) in the form of social responsiveness and performance came to occupy a key position in the strategic shift towards delivering social outcomes. Ackerman (1973) and Murray (1976) suggested that companies do not assume any social responsibility, but merely respond to social expectations of being an important constituent of the society.

Frederick (1978) popularised the acronym CSR, an abbreviated form of corporate social responsibility, a form of social responsiveness by the corporates. Wood (1991) viewed *social responsiveness as the capacity of the corporation to respond to social pressures* (391). Sethi (1975) was sceptical of CSR who considered the companies as essentially defensive and reactive to social demands. This means that a company basically assumed a socially responsible posture as opposed to embedding an operational element in its core business. Therefore, CSR can be viewed as non-binding obligation from ethical and philanthropic perspectives to gain social legitimacy responding to social pressures or societal expectations (Frederick, 1978). However, with growing concerns about corporate responsibilities to stakeholders including direct and indirect beneficiaries (Freeman et al., 2010), the issue of their legitimacy and reputation has come under increasing scrutiny. Despite, an increasing debate around the corporates' obligations to the society, businesses are holding onto the core doctrine of profit maximisation by late Friedman (1962), who posited that:

> *There is one and only one social responsibility of business: to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud* (2).

However, there is an emerging consensus on the need for- corporates to position themselves as partners in growth and sustainable development, and not merely as profit maximisation outfits (Bowie, 2012; Mulligan, 1986; Vorster, 2010). The United Nations Global Compact (UNGC) is the result of this awareness to the need for businesses to proactively participate as responsible agents of social change and development. UNGC is an institutional framework for the development, implementation, and disclosure of sustainability principles and practices in four key areas: human rights, labour, the environment, and anti-corruption (UN, 2008). These four areas are universally accepted as crucial elements of long-term value creation to benefit the private sector and societies at large simultaneously (Bandi, 2007; UN, 2008).

While the UNGC sets the principles of engagement for corporates, it does not prescribe any specific modalities for implementation. The membership of the UNGC is voluntary and does not have a serious monitoring regime in place. Moreover, this compact is viewed by critics as embracing a public relations strategy rather than functioning as a serious body that promulgates policies to enforce the principles that were enshrined (Bandi, 2007; Kell, 2005; Utting, 2003).

Against this global scenario of corporate participation, the idea of social business appeared to be more effective as a strategy among those who are directly engaged in development activities at the bottom of the economic pyramid (WRI, 2007). The concept of social business, posited by Yunus (2010; 2006c; 2009), gained attention at both policy and operational levels with the success of Grameen Bank (GB) in Bangladesh, and subsequent successful implementation of some of the Grameen Group of companies, each of which has specific social objectives to achieve in the areas of information technology, health care, agriculture, education, industry, women empowerment, to name a few (Yunus et al., 2010; YC, 2014; GT, 2014a). The microfinance approach of GB is based on the principles of social business. According to Yunus (2009),

> *A social business is designed and operated as a business enterprise, with products, services, customers, markets, expenses and revenues; but with profit maximization principle replaced by the social benefit prin*ciple (23).

Unlike formal and informal microloans, microfinance social business is a different business model. Yunus (2010) enshrines seven principles in *Type 1 social business*, of which a) *overcoming poverty and not maximizing profit, and b) financial and economic sustainability* (2,3) are the first two principles. These principles effectively serve three key issues: a) discourage the doctrine of profit maximisation in business posited by Friedman (1962), b) put the financial and economic sustainability of the organisation at the forefront, and c) set the specific objective of poverty eradication, that is, one or more socioeconomic problems that need to be solved. Since, profit motivation is tamed, the tendency to be exploitative in interest and fees is held under control as mandatory ethical standard.

The microfinance approach of GB is based on the principles of social business. The overall concept of social business to *build the capacity of the poor through market models lifting them out of poverty* (Grove and Berg, 2014: 9), has made it self-sustaining and inclusive in its development strategy.

1.6 Inclusiveness in Development

Inclusive approaches to development can be regarded as a process, and a performance outcome that can benefit disenfranchised communities or groups. In essence, *inclusive development is pro-poor growth accompanied by reduced income inequality for poverty reduction* (Ali, 2007: 7). This strategy directly impacts people at the bottom of the economic pyramid fostering growth and opportunity through participatory process and shared benefits (Pernia, 2003). The concept of inclusiveness in development literature has gained currency owing to the failures of institutions, and government policies to deliver economic and social benefits, and inadvertently widening inequities in societies (Rogowski and MacRae, 2004). For this reason, inclusive growth or development is generally viewed as a desired outcome of innovative initiatives targeting people who do not receive a fair deal (George et al., 2012).

Enhancing the capabilities of individuals (Sen, 1993) through institutional mechanisms, and designing products and processes that deliver financial and economic opportunities for low-income population (Yunus, 2002), are examples of inclusive initiatives. The core ethical and moral dimensions of an inclusive approach to development are to ensure a fair go for everyone in a society by eliminating discriminatory practices that systems might generate (Etzioni, 2010).

Businesses are the key drivers of economic prosperity in society (Edmiston, 2007; Wu, 2010). However, their ethical principles guiding their operating strategies are found to result in unequal income distribution or wealth accumulations in few hands, particularly when there are limited, or no mechanism that allow a sharing of the proceeds, or benefits, or when firms do not hold specific social obligations (Lucci, 2012; UN, 2008). Concerns relating to unequal economic growth that lead to economic inequities within a society beholden to market driven capitalistic economic paradigms (Hart, 2007; OECD, 2014b; OECD, 2014a; OECD, 2014c; OECD, 2011), have given rise to constructs, principles, policies and processes, such as corporate social responsibility (Carroll and Shabana, 2010; Bowie, 2012), inclusive business (Wach, 2012; Kambobe and Ashley, 2014), inclusive capitalism (HJI, 2012; Freeman et al., 2011; Carney, 2014), creative capitalism (HM, 2008; Hemphill, 2010), social enterprises (Ridley-Duff and Bull, 2011; Nyssens, 2006), and formulation of the UNGC principles (UN, 2008).

However, it appears that the above-cited approaches for addressing inequality and unequal growth, have not culminated into practical, implementable designs for inclusive development. These are merely a set of principles driven by moral and ethical prerogatives. Gates (2008) believed that capitalism has the intrinsic ability to serve the multitudes of poor around the world under proper institutional design. Gates (2008) propositioned that creative capitalism, *the hybrid engine of self-interest and concern for others can serve a much wider circle of people than can be reached by self-interest or caring alone* (from the speech of Bill Gates in Davos, Switzerland). This approach is similar to what Prahalad and Hammond (2002) and Prahalad and Hart (2007) suggested for corporations to develop a business partnership to co-create value that is mutually beneficial to businesses and communities.

The overall concept of social business to *build the capacity of the poor through market models lifting them out of poverty* (Grove and Berg, 2014: 9), has made it inclusive in its development strategy. Inclusiveness, therefore, incorporates the principles of equity and partnership, and sharing mutual responsibilities for balanced growth and opportunities. Social business embodies the operationalisation of the principles of inclusiveness. In line with these principles, this thesis investigates the adaptation of the GB model of microfinance as a social business that operates sustainably, delivering the outcomes of financial inclusion and poverty alleviation (Yunus, 2009) in the Australian context.

1.7 Statement of the Research Problem

The preceding sections have discussed the context of this thesis and the way microfinance has been used as a tool to address the issues of financial exclusion of low-income population (Calabrese, 2006; Erams et al., 2013). It is increasingly recognised that the nature of inequality is a product of systemic failures involving the problems of distribution or distributive justice (Deutsch, 1975; Konow, 2003; Schokkaert, 1994); a lack of enhancing the capabilities of citizens by conscious and deliberate institutional mechanisms (Alkire, 2002; Sen, 1993); limited access to institutional credit (Yunus, 2003b) , issues pertaining to human rights and ethical considerations in policy formulation (Robinson, 1997; Yunus, 1998a; Edward, 2006); and non-inclusive policies and instruments (HJI, 2012), which have direct bearing on economic and social outcomes.

The strategy of welfare in Australia, inspired to a degree by Keynesian economics, concerning a state's intervention through welfare mechanisms for income poor citizens (Marcuzzo, 2005; De Regil, 2001), can be regarded as an interim solution in times of prosperity. During lean economic periods, the state may find it challenging to provide benefits and free support to its poorer citizens (Tingle, 2014). Accordingly, it is an imperative to find alternative ways of connecting such population to economic value chains.

Market-based solutions to alleviate poverty and inequality gained intellectual and developmental traction in the early 21st century, when Prahalad, Hammond and Hart (2004; 2002) advanced the theory of the economic power of the poor. World Resource Institute estimated that (WRI, 2007):

> *The 4 billion people at the base of the economic pyramid (BOP); all those with incomes below 3,000 in local purchasing power live in relative poverty. Their incomes in current U.S. dollars are less than $3.35 a day in Brazil, $2.11 in China, $1.89 in Ghana, and $1.56 in India. Yet together they have substantial purchasing power: the BOP constitutes a $5 trillion global consumer market* (3).

The point of inference is that a solution to poverty lies in harnessing the power of the poor through appropriate institutional mechanisms following a strategy commonly labelled as inclusive capitalism (Carney, 2014; HJI, 2012). This aligns with the views of Yunus's (2010) assertion of institutional arrangement to create opportunities for the poor to participate in the economic value chain like their fortunate richer counterparts.

Recognising the presence of widespread financial exclusion in Australia (Connolly, 2014b), charity and non-governmental organisations (NGOs), and purposely designed microfinance organisations are working in tandem with the Government. Though in many instances, as reported by Burkett and Sheehan (2009), the programmes discouraged people from going to payday lenders, the impact of these programmes was reported to be *somewhat peripheral* (27). An evaluation of the CDFIs in Australia by Plant and Warth (2013) reported positive impacts like avoidance of expensive payday loans, amelioration of financial hardships, and vindication of the perception that microfinance recipients are able and willing to repay loans and bear costs.

The experience of the major microfinance organisations in Australia (e.g. Good Shepherd Microfinance, NAB Microfinance, Manyrivers Microfinance, Brotherhood of St Laurence, Foresters Community Finance, Fair Loans Foundation, Fair Finance Australia) like many successful ones overseas, reported positive economic and social gains in the lives of their clients (Bilby, 2012; Ilan and Giovanni, 2013; Burkett, 2013; IRD, 2009). However, the microfinance organisations in Australia depend on government grants and philanthropic donations to finance their regular operations. The critical challenge, therefore, is to achieve financial viability of institutions delivering microfinance services.

While the positive impact of microfinance in Australia is noteworthy, the extensive arrays of service providers neither agree on specific models, nor have adopted a set of best value principles that serve the purposes of financial inclusion, positive social outcomes, and achievement of long-term organisational sustainability and financial self-sufficiency.

In Australia, most loans from major microfinance organisations are utilised for consumption purposes, with only a small proportion constituting enterprise loans (BSL, 2014; GSM, 2013; Plant and Warth, 2013). Microfinance as a tool for self-employment (Yunus, 1987a) is different from microfinance as a temporary short-term loan during financial hardship (Morse, 2011). Within this context; an explanation of financial viability, and institutionalisation of microfinance as a poverty alleviation tool are critical considerations of this thesis.

One of the issues that relate to financial viability of microfinancing is the size of microfinance market. There appears to be no research that specifically focusses on determining the size of Australian microfinance market. This deficiency can be attributed to a lack of agreed criteria as to what constitutes a microfinance loan, its purpose and modus operandi, and the absence of any legal and regulatory framework to operationalise such an enterprise. The need for such an investigation was underscored by Burkett and Sheehan (2009) and Plant and Warth (2013). Thus, any study on the viability of microfinance organisations needs to consider the depth of reach and scalability, levels of inclusiveness and social relevance. Therefore, it can be assumed that:

1) Despite significant proportion of annual Federal budget allocated to supporting economically struggling families, there appears to be no clear poverty mapping in Australia that could be used as a benchmark for understanding the nature and extent of inequality and deprivation experienced by people on low incomes.
2) Organisations dispensing microfinance to the poor and marginalised communities in Australia are financially unsustainable owing to their dependence on philanthropic and Government support.
3) The reach and scalability of microfinance in Australia have not been investigated extensively, if at all.
4) There is no specific microfinance model which is both financially viable and socially effective, as a financial inclusion tool.

1.8 Research Objectives and Research Questions

As noted earlier in this chapter that this thesis is undertaken as a three-study project with aims to understand the current poverty profile of Australia, and to investigate the possibility of adapting a self-sustaining microfinance social business model pioneered by Grameen Bank (GB) in Bangladesh. The GB approach to microfinancing is the socioeconomic development from the bottom-up, instead of the top-down conventional development models (Yunus, 2006b; Mjøs, 2006; Wolfe, 1996; Harcourt, 1997). Details about the features and the philosophical context of GB approach are discussed further in Chapter 8 (i.e. Study 2).

Against this backdrop, this thesis has three main Research Objectives (RO).

RO1: To map the poverty and inequality contour and its nature in Australia.

RO2: To identify opportunities for providing credit and financial services to financially excluded population in Australia.

RO3: To examine the efficacy of a modified, and or adapted microfinance social business model of Grameen Bank for Australia.

The spectrum of poverty and inequality varies in each society and culture. Individuals who rely mainly on social security payments are the most vulnerable people in a developed welfare economy. Other disadvantaged people are those who have lost their jobs, or suffer from a disability or illness. Saunders et al. (2014) reported that:

> *Even having paid work does not protect people from poverty: over 30% people living in poverty come from households where the main form of income is from wages and not social security* (5).

Not all income poor will benefit from microfinance, as high proportions are disabled; adults over 65 years of age or those receiving age pensions. These individuals constitute about *57.5% and 44.5%* (Saunders et al., 2014: 11) in their respective categories within the poverty threshold of 60% of median income during 2010-2011. Disability poverty rate is based on 2009-2010 data as ABS collects this data after every four years. It is notable that only 53% people with disabilities participated in the labour force in 2012 compared to 83% without disabilities (ABS, 2012b).

Therefore, it is argued that the mapping exercise of poverty and inequality helps to identify the size and nature of a market for individuals to benefit from microfinance services. This approach to inclusiveness and poverty reduction is now considered an imperative in view of increasing number of people who are jobless, working only part time, those on casual employment, and youth unemployment (Janda, 2014).

Microfinance organisations in Australia are still at a nascent stage. Categorised as CDFIs, their growth and development remain dependent on both public and private funding (GHK, 2010; Parker and Lyons, 2003; Plant and Warth, 2013). This makes them financially vulnerable throwing into question their long-term viability. Accordingly, this context raises not only a number of imperatives but also four key Research Questions (RQ) concerning the efficacy of setting up self-sustaining microfinance social businesses in Australia with implications for current mode of operations, a broad-based policy framework, and future directions.

RQ1: Is there a market for viable microfinance operations in Australia? If so,

RQ2: What is the potential size and dispersion of this market?

RQ3: Is it possible to establish a microfinance organisation as a social business which focusses on positive social outcomes and is also financially viable?

RQ4: What would be the key attributes of such an organisation?

1.9 Significance of this Thesis

Despite sustained levels of economic growth spurred by a mining boom (Banks, 2011; Gregory, 2011; Pham et al., 2013; Das, 2013), there appears to be no perceptible improvement in the wellbeing of income-poor Australians (Saunders et al., 2014). Financial exclusion has exacerbated their hardship and provided barriers to their economic opportunities (Burkett and Sheehan, 2009; Sen, 1991a). Although the reported benefits of microfinance as an inclusive financial tool have been acknowledged (Bulletin, 2003; Burkett and Sheehan, 2009; de Aghion and Morduch, 2005; Fuglesang and Chandler, 1993; Plant and Warth, 2013; Sengupta and Abuchon, 2008; Yunus, 2003b), the viability of such a service, especially in developed countries, remains contentious. There appears to be no research on the viability of microfinancing as a social business in Australia from an institutional perspective. Thus, investigating the appropriate process and structures in the Australian context is considered timely.

Against the above backdrop, the significance of this thesis can be found regarding its implications for theory, policy, and practice in the implementation of inclusive and socially relevant microfinance social business enterprises in the Australian context.

This thesis adopts a cross-country approach in investigating the replicability of a microfinance model across sociocultural and economic boundaries using institutional theory (Scott, 2009) and contingency theory (Donaldson, 2001) of organisations. While this thesis contributed to the understanding of the regulative, normative, and cultural-cognitive factors in the process of adaptation, it also took into cognisance contextual similarities and variations while providing strategic and operational guidance for effective policy responses.

Reaffirming the systemic flaws in the exacerbation and perpetuation of poverty, inequality, and financial exclusion, and using the replication experience of Grameen America (GA) in the USA, this thesis identified a number of key attributes to facilitate the establishment of a microfinance social business in Australia in response to the RQ 4. Microfinance practitioners might be able to use these attributes in designing their systems, adopt an appropriate strategy, and share their experiences with the Government and relevant authorities in promulgating supportive regulations.

Though this thesis investigated microfinance practices and their contextual relevance in three different countries: Australia, Bangladesh and the USA, its primary focus was Australia. The process and extent of this investigation also add to the knowledge of sustainable pro-poor economic growth across developing and developed nations.

Microfinance social business is a concept that uses business principles to solve social problems. This thesis provides a theoretical understanding of this concept and its efficacy as a model. The theoretical knowledge encompasses design and delivery of the model, distributive justice and equity in lending, and a conceptual framework for replication of an organisation in multiple socioeconomic and regulatory environments.

1.10 Structure of the Thesis

This thesis comprises a further nine chapters. Since the thesis incorporates three interrelated but separate studies requiring different data sets, it has been considered expedient to avoid a separate chapter for data analysis or findings. Instead, each study incorporates a 'Findings and Discussion' section. The three studies are covered in Chapters 7, 8 and 9. The contents of each chapter are briefly introduced below.

Chapter 2 is the theoretical conceptualisation of this research. The two theories underpinning this research are institutional theory (Scott, 2009; Scott, 2013), and contingency theory of organisations (Donaldson, 2001; Pennings, 1992). The replicability and efficacy of an organisation, and in this instance, the microfinance social business model of GB, are dependent on sociocultural, economic and regulatory factors in a given society or realm. These two theories explain complexities and dynamics of the process of obtaining sociocultural legitimacy and adapting to the systemic domains. The inherent characteristics including limitations of these two theories, and the relevance of using their theoretical lenses with examples, are also discussed in this chapter.

Chapter 3 provides conceptual and operational definitions of poverty. Poverty being multidimensional (Alkire and Emma, 2010; Niemietz, 2011; Alkire and Robles, 2015), its causality and consequence vary across the scale. Clear operational definitions of poverty are instrumental in undertaking strategies and policies that embrace its non-monochromic nature. Therefore, understanding the various facets, expressions and impact of the multidimensional character of poverty are critical to the promulgation of policies and effective implementation strategy of the poverty-focussed development programme. This chapter contributes to identifying the nature and consequence of poverty in Australia in Chapter 4.

Chapter 4 is the mapping of poverty and inequality in Australia. The mapping exercise addresses the Research Objective 1 (i.e. to map the poverty and inequality contour and its nature in Australia) of this thesis. The knowledge of Australian poverty and inequality is fundamental to the understanding of the appropriateness of microfinance social business as a policy tool to mitigate problems of financial exclusion. Further, the answer to Research Question 1 (i.e. is there a market for viable microfinance operations in Australia?) is dependent on the outcome of the poverty and inequality mapping based on an in-depth review of extant literature, that includes government documents, reports from both private and public sources, academic literature (e.g. peer-reviewed journal articles, and PhD dissertations), books, conference papers, research articles, magazines and newspaper reports. The mapping exercise in this chapter has revealed persistent poverty and inequality in Australia despite a well-functioning safety net programme (SNP). This chapter provides compelling information to back up the need for alternative policy tools outside the overarching SNP, connecting the low-income, and financially excluded individuals, especially those on temporary income support programmes, to economic value chains.

Chapter 5 critically reviews, using the multiple sources of secondary data, the Australian microfinance market to understand its actual nature, market size and its potential for growth, key practitioners and their motivations, including opportunities and barriers under the current legal and regulatory environments. This chapter provides secondary information pertaining to Research Objective 2 (i.e. to identify opportunities for providing credit and financial services to financially excluded population in Australia), and Research Question 2 (i.e. what is the potential size and dispersion of this market?). The findings in this chapter have been used in conjunction with the primary data in the investigation to determine the appropriateness of a modified and or adapted microfinance social business model of Grameen Bank (GB) for Australia in Chapter 7.

Chapter 6 describes the overall research design of this thesis. This thesis embraces a qualitative paradigm in which epistemological framework adopts a constructivist approach. Constructivism postulates that knowledge and realities are contingent upon human practices within an inherently social context. In this instance, understanding of microfinance practices in different sociocultural settings is explained from everyday experiences of practitioners, clients and broader stakeholders who are directly and indirectly impacted by microfinance operations. The nature of qualitative research and justifications for its use in this thesis are also explained. This chapter also describes the conceptual framework of this investigation *showing theoretical perspectives and their practical applications* (Leshem and Trafford, 2007: 95) in this thesis.

Chapter 7 investigates appropriateness of a modified and or adapted microfinance social business model of Grameen Bank (GB) for Australia. The findings from both the primary and secondary data were critically analysed to assess the potential size and dispersion of a microfinance market, and the prospect of setting up a self-sustaining microfinance social business enterprise in Australia. While the existence of a large number of unbanked population, and a potential microenterprise market were revealed in the investigation, the market itself remained underserved and unexplored. Institutional anathema, ideological stand, regulatory barriers vis a vis systemic issues, and lack of professional knowledge in the design and implementation of a microfinance social business model, among others, are some of the issues worth mentioning in this brief.

Chapter 8 is a case study of Grameen Bank (GB) in Bangladesh based on both primary and secondary sources of data. Being a case study, it is both exploratory and explanatory in nature (Yin, 2009). The primary data comprise internal documents from GB, in-depth semi-structured interviews with borrowers and executives at different organisational hierarchies of GB, and its sister company Grameen Trust (GT) that oversees global replication of the GB model. The secondary data are the extant literature: journal articles and thesis, reports, and documents from multiple sources, both local and international. The findings from both the data sources were critically discussed to unravel the features of GB from its origin and philosophy to its institutional strategy, modus operandi, sustainability, impact, critique, and replicability at home and abroad. The GB design and its social business features are critically explored and explained from both theoretical perspectives and its practical application.

Chapter 9 is a case study of Grameen America (GA) in the USA and therefore, its exploratory and explanatory nature explicates and elucidates the organisational features and its process of adaptation in a developed country's context. The study used data from three sources: internal documents of GA, semi-structured in-depth interviews with the borrowers and key executives of GA, and secondary data from the extant literature. Being a direct replication of GB in the USA, the Study 3 investigates the sociocultural, economic and regulatory environments of the country where GA had to adapt as an organisation by recalibrating its institutional strategy and modus operandi in its effort to comply with the broader institutional environment (Scott, 2009), and as well make adaptive changes to combine contingency and organisational structure to achieve high performance (Donaldson, 2001). The replication experience of GA provided critical information for the potential adaptation of the GB model for Australia.

Chapter 10 is the conclusion of this thesis. It briefly recaps the rationale for using the two underpinning theories, and provides a synchronisation of the research objectives (RO) and research questions (RQ) driving the entire research. The chapter summarises the cross-country findings, identifies the adaptation strategy and the key attributes of a potential microfinance social business organisation for Australia. The chapter also discusses the implications of this thesis for theory, policy, and practice including limitations and direction for future research.

1.11 Conclusion

Considering the circumstances of inequality and financial exclusion in Australia, the significance, and relevance of this thesis are understandable. The key concepts like income inequality, poverty, microfinance, social business, and inclusiveness in development, which constitute the recurrent themes in this thesis, have been briefly introduced as precursors before delving into details of this research.

The extant literature made it clear at the outset that it was imperative to investigate further the causes and depth of inequality and its nature in Australia for future policy directives. This research revealed an absence of a financially viable microfinance model in Australia, necessitating an investigation to explore opportunities for designing sustainable institutional mechanisms which would be inclusive in nature to deliver sustainable developmental outcomes.

The next chapter (i.e. Chapter 2) examines the current research proposition through the theoretical perspectives of institutional theory and contingency theory of organisations. These two theories help to explain the socioeconomic idiosyncrasies, institution building process, concepts of fit and misfit of organisations' adaptation to various institutional forces to achieve efficiencies and to meet organisational goals and objectives. The replication of a particular microfinance model, appropriate and effective in different cultural and economic settings, is examined through these two theoretical lenses.

Chapter 2 Theoretical Conceptualisation

2.1 Introduction

It is often difficult to understand why a particular demography has unique characteristics and features, or how a society adopts certain norms in institution building, and forming relationships and values. Theoretical lenses explain complex issues involving a gamut of social phenomena. According to Reeve et al. (2008):

> *Theories provide complex and comprehensive conceptual understandings of things that cannot be pinned down: how societies work, how organisations operate, why people interact in certain ways. Theories give researchers different lenses through which to look at complicated problems and social issues, focusing their attention on different aspects of the data and providing a framework within which to conduct their analysis* (631).

One of the principal objectives of this thesis is the potential replication of a particular microfinance model that is found to be effective as a poverty alleviation and financial inclusion tool in poor and developing societies. There is a perception that microfinance is less effective in societies where individual freedom and personal choices are prominent in matters of social relationships as part of privacy and moral ethics. For example, group - based approaches to peer monitoring to minimise the risk of information asymmetry, and lack of collateral by poor clients in microfinance loan operation is viewed as unworkable in developed countries, such as Australia or in the USA (Sternberg, 1998; Schreiner and Morduch, 2002), where individuals are less inclined to be supervised by their peers and the privacy laws make it difficult for an individual to have access to another person's information (GOA, 1988). The adaptability of a model or a concept, and its efficacy is dependent on multiple factors relating to both external and internal to the model or the design (Donaldson, 2001). Therefore, understanding and identification of these factors are critical in replication across regional boundaries having variations in their socioeconomic and legal systems.

Peer monitoring, one of the common strategies to overcome information asymmetry in the Grameen microfinance model, is being followed by many replicators across the globe. Even in a wealthy society, there are unequal social and economic circumstances of the population, creating sub-cultures with varying degrees of norms and ethics, and the application of privacy laws may be subject to the purpose or intent of disclosure and as well as an individual's informed personal consent. The trend is evident in societies where immigration from diverse countries and ethnicities has contributed to the development of cultural hubs in both economic and social dimensions (Hagan, 2004).

Within the above context, institutional theory (Scott, 2009; Scott, 2013) and contingency theory of organisations (Donaldson, 2001) are considered potent in explaining the complexities of societies and institutions and the underlying dynamics of their growth, nourishment, and sustenance. In Chapter 3, a number of definitions and conceptual underpinnings are discussed to help garner an understanding of poverty, including elucidating the relevance, causes, and consequences of poverty. These bodies of work form an integral component to the theoretical lenses adopted, and are employed to analyse the relevance of microfinance as an inclusive financial paradigm in different poverty and inequality measures.

2.2 Rationale for using Institutional Theory and Contingency Theory of Organisations

While institutional theory and contingency theory discuss contexts and rationales in which organisations operate, derive their legitimacy, and explain the process of adaptation under various social and cultural realities, and confront challenges from the larger environment and stakeholders, understanding the nature and consequences of poverty is critical for developing the criteria and adaptation strategy of an effective microfinance social business model. Poverty and inequality are measured against the unique socioeconomic realities of a specific region or country.

The institutional theory explains why and how institutional influences shape internal operational structures to make them effective and legitimate operations, as agencies in the greater socioeconomic and regulatory contexts. At times, simple adjustments with external realities are not always adequate for an organisation to be efficient. Social norms and perceptions influence organisations to be socially and politically accepted. Scott (2009) advanced the view that institutional theory takes on a wider macro environmental perspective that examines a diverse range of elements, and *their effects on organizational forms and processes* (461) to achieve efficiency.

In contrast, the contingency theory deals primarily with the organisational structure and adjustment of operations to achieve maximum efficiency to attain objectives. Contingency theory is uniquely focussed on the concept of fit between contingencies and structures to achieve efficiency for organisations (Donaldson, 2001). The theory considers only those variables that contribute to attaining fit to be contingencies. These variables may be critical for attaining social or cultural legitimacy in environments in which they operate.

The contingency theory is being used here to explain the adaptation process of an organisation. The theory holds that *there is a fit between the organizational structures and contingency that has a positive effect on performance* (Donaldson, 2001: 10). The concept of fit in contingency theory can be extended to examine the levels of adaptation of the microfinance model developed by Grameen Bank (GB) and currently being replicated in different countries. This theory postulates that the internal operational design of an effective organisation achieves a fit with the external realities. The primary approach is from the point of structural fit to a large range of contingency variables surrounding an organisation. Contingency variables can be both internal and external to the organisation depending on the nature of the deliverables. This theory, does not, however, explain how external contingencies influence internal structures. This deficiency is complemented by the institutional theory of organisations, as discussed below.

2.3 Institutional Theory

This theory explains the institutional influences in shaping the internal operational structures of organisations to make them not only efficient but also to legitimise their operations as agencies in the greater socioeconomic and regulatory contexts (DiMaggio and Powell, 1983; Giddens, 1979; Sewell, 1992).

Social norms and perceptions encourage an organisation to be socially and politically acceptable (Fligstein, 1990; Orru et al., 1991; Whitley, 1992). For example, a microfinance organisation with an excellent operational structure that intends to enlist women as the prime clients in similar economic context might not work in a country like Afghanistan where male members of families represent contractual obligations.

Shown in Table 2.1 Scott (2009) conceptualised the institutional theory in a simple framework comprising of three broad pillars or elements that explain institutional idiosyncrasies, underlying dynamics, goals, values, and effectiveness as organised agencies in the wider spectrum of competing entities.

Table 2.1 Three Pillars of Institutions

THEORETICAL ELEMENTS	THREE PILLARS		
	Regulative	Normative	Cultural - Cognitive
Basis of Order	Regulative rules	Binding expectations	Constitutive schema
Basis of Compliance	Expedience	Social obligations	Taken-for-grantedness Shared understanding
Varying Mechanisms	Coercive	Normative	Mimetic
Varying Logics	Instrumentality	Appropriateness	Orthodoxy
Empirical Indicators	Rules Laws Sanctions	Certification Accreditation	Common beliefs Shared logic of action
Basis of legitimacy	Legally sanctioned	Morally governed	Comprehensible Recognisable Culturally supported

Source: Scott (2009: 465).

The three pillars that Scott (2009) termed as regulative, normative and cultural-cognitive can be regarded as foundations for an institutional building process. Within this framework, institutions build their operational ethics; work on adaptation strategies, and set goals and purposes with values and principles as moral and legal foundations for their actions. An institution derives its personality and effectiveness as one of many players in a society where the underlying contributing factors like the basis of order, compliance, and legitimacy, varying degrees of logic and mechanisms adopted, and the mode of operation described as empirical indicators, are embedded to shape its architecture.

The structure and ethical foundations of microfinance organisations in Australia, targeted at low-income population hinging on philanthropic approach, are comprehensible when viewed through the lens of institutional theory. Large microfinance operations in Australia such as Good Shepherd Microfinance (GSM, 2013) and Brotherhood of St Laurence (BSL, 2013) operate on the principles of fairness and affordability, two of the basic ethical considerations emanating from the charity and compassion motives of religious values these organisations espouse, aimed to help those who may be distressed, vulnerable or impoverished.

Poverty mapping in Australia is a precursor to understanding the potential of a microfinance market, and the characteristics of such a market to determine the viability of an institutional approach. Without a socio-demographic analysis of conditions and economic circumstances as the primary basis to gauge the demand for microfinance products, strategic planning in this field would be rudderless and inconclusive.

Being poor or financially challenged does not automatically qualify a person or motivate an individual to obtain a microloan. The social ethos and values, and circumstances in which a person lives, determine her/his motivations and ability to borrow and to use loans effectively. Poor persons in Bangladesh, India, or Afghanistan might not necessarily have the same level of motivation to borrow as the nature and extent of poverty are likely to be different when seen against the background of a social safety net, privacy laws, and enforcement of legal and regulatory conditions.

The enforcement of privacy laws in developing countries like India and Bangladesh, or in any of the African countries is practically absent, whereas. in Australia or Scandinavian countries, laws are enforced strictly. As such, the concept of peer pressure and peer mentoring and monitoring in microfinance lending as a strategy to address the risk of information asymmetry might be difficult to adopt in a country like Australia.

Therefore, the level of adaptation of a particular design or a model in a different country will be different. The institutional theory explains this phenomenon as part of the greater environmental reality that embraces the legal and regulatory aspects, and contributes to the perceptions and motivation of a person. As such, the key research questions concerning the market presence or viability of microfinance operations in Australia need to be viewed, explained, and understood through the lens of institutional theory.

In replicating or adopting similar strategies or structures in different sociocultural contexts to achieve similar efficiencies might not always work. Meyer and Rowan (1977) stated that formal structures and categorical rules that once were recognised as standard, could conflict with the logic of efficiency. Both DiMaggio and Powell (1983) agreed with this view, and asserted *that institutions produce structural change as a result of processes that make organizations more similar without necessarily making them more efficient* (147).

A structure like Grameen Bank's group-based approach to avoid information asymmetry might face cultural conflict with resultant inefficiencies. But then again, operating with similar structures and in similar social and economic contexts can deliver similar results.

Efficiency is more a product of the way an organisation addresses the pillars of institutional elements (see Table 2.1). Scott (2009) explained the underlying ability of organisations to acknowledge and integrate changes in response to the environment in which they operate.

Microfinance providers in Australia like NILS, StepUp, Brotherhood of St Laurence, Fair Loan Foundation, Community Sector Banking, have similar pattern of service delivery, nature of products, and even the conceptual format of reaching out to low-income individuals with similar outcomes. It can be argued that these similarities might have been influenced by the regulative, normative and cultural-cognitive aspects of the three pillars of institutions posited by Scott (2009), and may not necessarily increase efficiency in service delivery. It may, however, achieve the primary objectives of these organisations. Merely responding to the institutional environment without an appropriate organisational design, capable of achieving efficiency (operational and financial viability without compromising the social outcomes), is a short-sighted approach.

The variety of models that adapt to institutional circumstances with a focus on sustainable operation, has a possibility to achieve efficiencies, and ultimately grow. The replication of the Grameen Bank model, when viewed through the theoretical lens, makes sense. This theory helps to explain why a successful model in Bangladesh might require restructuring many of the fundamental traits of operation when replicated in a different region, or a sociocultural setting. According to Scott (2009):

> *The broader cultural-cognitive, normative and regulatory aspects of institutions shape the nature of competition and markets, as well as the meanings of effective performance and effective operation* (470).

Fligstein (1990), Orru et al.(1991), and Whitley (1992) were unanimous in their views on effects of broader institutional environment, conceptualised by Scott in Table 2.1, that defines, shapes and rationalises organisational approaches to achieve performance.

Narrowing down the focus on the culture of specific communities, even within a same country reveals unique cultural features and differences. For example, in Australia, the Aboriginal community and Torres State Islanders have their own social ethos and values that differ from mainstream cultural norms (Zubrick et al., 2010).

In Australia, immigrant communities come from various cultural backgrounds and ethnicities and adopt particular ways of life, but do not altogether abandon their cultures from where they come (Price, 1999). These cultural issues are important for understanding their motivation and moral prerogatives in their process of adaptation and amalgamation within a new society with its inherent value systems.

Thus, when designing an organisation, it is critical to recognise the broader sociocultural and demographic contexts in addition to the legal and regulatory aspects of a given society (Scott, 2009; Scott, 2013). Institutional theory underpins the causalities of social norms and behaviours as critical inputs in organisational design and operational strategy (Dacin et al., 2002).

In developed countries like the USA and Australia, where despite income inequality and disparity (Saunders and Tsumori, 2002), the expression of poverty is relatively less stark when compared with poor and developing countries (Davidson, 2008; UNDP, 2014a; Wilma, 2010). State assistance for the economically disadvantaged population through social safety net programmes not only lessen the negative impact of poverty but also influence the attitudes and expectations of people in ways that differ from those who do not receive such support in other nations (Marcuzzo, 2005; Regil, 2001).

According to Scott (2009; Scott, 2013), institutional theory is not only limited to the institutional building process, but also helps to explain the cross fertilization of ideas beyond a wide spectrum of organisations including, among others, government agencies, non-government organisations (NGOs), multinational organisations (MNCs), banks, manufacturing, and trading enterprises, that have organised approaches for addressing social and economic agendas as part of their operational strategies. For this reason, the institutional theory has been adopted to underpin the present thesis to explain the adaptability and replication of the Grameen Bank model of Bangladesh in different geopolitical, social, and economic and cultural settings.

Scott (2009) emphasised that institutional theory has an ability to explain the deeper and more enduring aspects of social structures, stating that:

> *The institutional theory considers the process by which structures, including schemas, rules, norms and routines become established as authoritative guidelines for social behavior. It inquires into how these elements are created, diffused, adopted and adapted over space and time and how they fall into decline and disuse* (460).

This aspect of process-driven inquiry explains the growth, efficiency, nourishment and decline, and the rationale behind these in the life cycle of organisations. The case studies of Grameen Bank, Grameen America and an independent study of an Australian microfinance scenario are examined from the perspective of this process driven architecture.

2.4 Limitations of Institutional Theory

The isomorphism is the key criticism of the institutional theory, a constraining process that enforces similar structural or organisational patterns in similar environmental circumstances. Organisational structures evolve from experiences and rules of marketplace efficiency, but isomorphism posits that organisations tend to move towards homogenous structures as a rational response to uncertainty, when operating in similar environment (DiMaggio and Powell, 1986). Isomorphism does not necessarily increase efficiency. Rather, isomorphism can breed rules and values, create unnecessary bureaucracy, and even stifle innovation. Simple adherence to institutional and societal ethos can secure an organisation's legitimacy in specific environmental contexts.

Survival and efficiency depend largely on how an organisation embeds innovation into its operational design when adapting and adjusting to changing realities. These factors motivate the adoption of socially appropriate practices, influencing taste and shaping the boundaries of economic activities (DiMaggio and Powell, 1983). Since, society is evolving all the time, the concept of isomorphic constraint tends to be self-limiting owing to changes in society and institutional environment in which an organisation operates.

2.5 Contingency Theory of Organisations

The contingency theory advances the concept of fit between contingencies and structures to achieve organisational efficiency. This theory does not consider a variable to be a contingency if and when it does not contribute to attaining fit, but might be critical to attaining social or cultural legitimacy in an environment in which it operates.

Contingency theory posits that the effectiveness of an organisation is the result of the fit of an organisation's structure to the contingencies in which an organisation operates (Burns and Stalker, 1961; Laurence and Lorsch, 1967; Pennings, 1992; Woodward, 1965). The contingency being central to the theoretical paradigm, encompasses environment (Burns and Stalker, 1961), organisational size (Child, 1975), and organisational strategy (Donaldson, 2001). Donaldson (2001) pointed out that:

> *While all contingencies are causes of organizational structure, not all variables that affect organizational structure to attain fit are necessarily contingencies* (88).

It is, therefore, essential that a variable has to be a cause of structure and as well the cause is a contingency to attain fit for the attainment of the positive performance of an organisation.

The No Interest Loan Scheme (NILS) programme of Good Shepherd Microfinance (GSM) elucidates this particular aspect of contingency theory. The loans of the NILS programme are interest-free and are assumed to be a moral prerogative forming part of this NGO's organisational ethics. These loans can be regarded as a cause of the structure of the organisation, but not a contingency as it does not enhance its performance as a microfinance entity, because this NGO (i.e. GSM) is not financially self-sustainable.

The theory claims that a fit between contingency and structure of the organisation will deliver efficiency or performance, and vice versa. An efficient organisation proactively interacts with its larger environment (a contingency) and keeps watch on the expectations of its stakeholders to adjust its internal structures and strategies (a contingency) to accommodate the changes to enhance its performance.

The above assertion is basically the congruence of any variables between contingency and structure that may range from micro adjustments to a major overhaul of the process to ensure harmony or complementarity as part of creating either synergy or to neutralise any negative consequence that may affect performance. While explaining the core contingency theory paradigm, Donaldson (2001) stated that:

> *Structural contingency theory contains three core elements that together form its core paradigm. First, there is an association between contingency and the organizational structure. Second, contingency determines the organizational structure, because an organization that changes its contingency then, in consequence, changes its structure. Third, there is a fit of some level of organizational structural variable to each level of the*

> *contingency, which leads to higher performance. This fit performance relationship is the heart of the contingency theory paradigm. It provides the theoretical explanation of the first two points; the association between contingency and structure, and contingency change causing structural change* (7).

The thesis, while examining the various characteristics of microfinance organisations in Bangladesh, Australia, and the USA employs this theory to identify the various contingencies that influence the shaping of the structure of an organisation to attain high levels of performance, and or, to deliver outcomes for which an organisation was established in the first place.

This causality between fit and performance is a core paradigm of contingency theory that explains the association between contingency and structure and consequential changes to the organisational structure due to contingency change. This change process in contingency theory is explained as *the combination of contingency and structure that produce high performance* (2001: 182) and efficiency is illustrated by Donaldson (2001) with a simple model called the Structural Adaptation to Regain Fit or SARFIT.

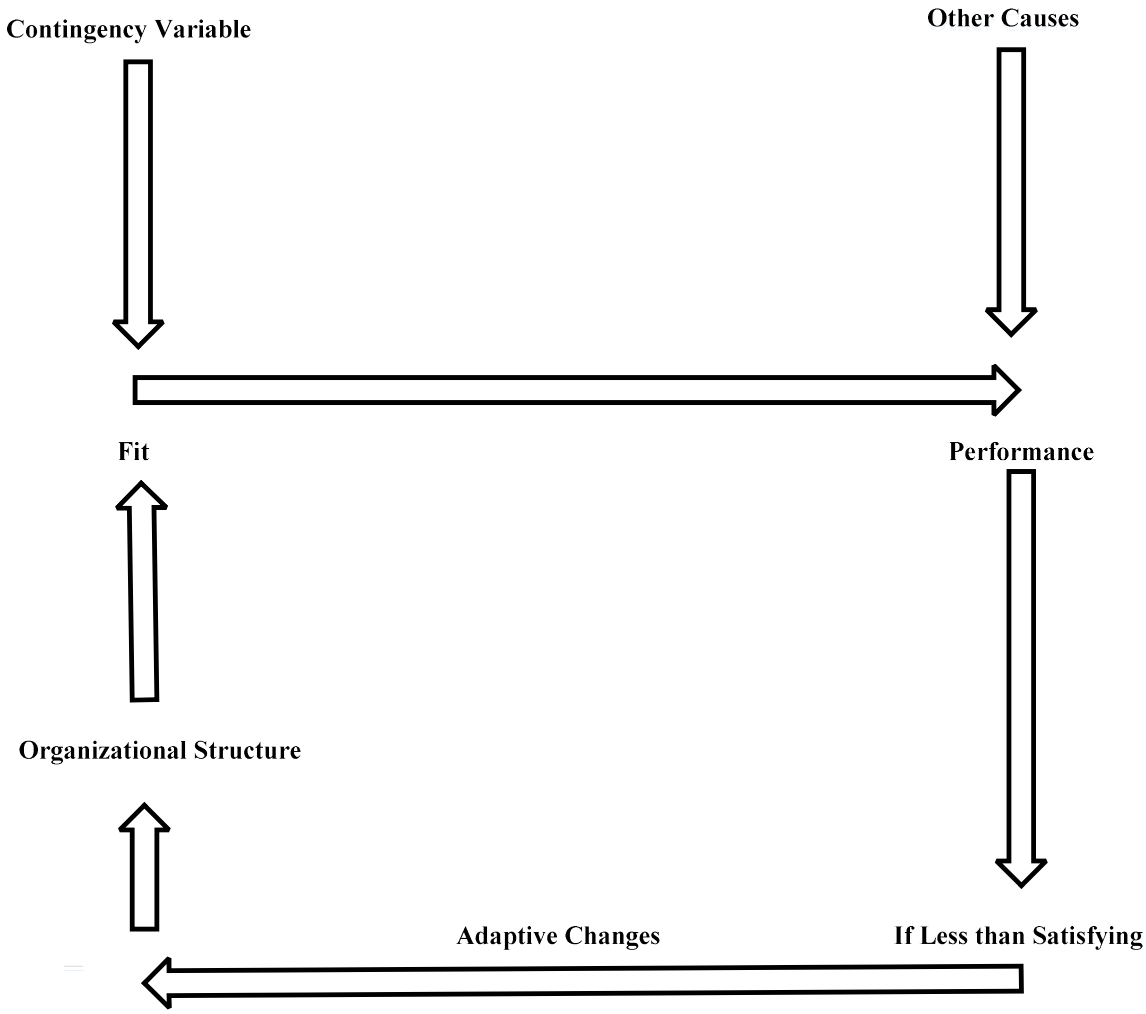

Figure 2.1 Structural Adaptation to Regain Fit (SARFIT) in Contingency Theory.
Source: Donaldson (2001: 182).

According to Donaldson (2001), SARFIT model demonstrates that an organisation displays an initial fit when it has a structure that fits the existing level of a contingency variable. Fit affects performance positively. However, when an organisation changes the level of a contingency variable while retaining its existing structure, a misfit can emerge with its new contingency level (Donaldson, 2001). This misfit can lead to lower levels of performance, reversing the positive effect of fit on performance (Donaldson, 2001).

When performance reaches a relatively low threshold, organisations tend to make an adaptive change. Accordingly, contingency theory holds that when an organisational structure fits the contingency, then higher performance results. Conversely, the misfit between contingency and structure culminates in a low level of performance. Therefore, organisations move towards fit to gain optimum performance. This theory helps to explain the organisational change.

2.6 Limitations of Contingency Theory

This theory is often viewed as metatheory that explains mechanistic aspects of a situation instead of having its propositions to understand the causality of events and their underlying significance. Drawn from a large pool of empirical studies, contingency theory relies on a set of assumptions that assert that there is no one best way to organise, and certain ways of organising are not always effective under all conditions.

The theory is often criticised as tautological because of its circular reasoning. The abstract idea of a fit between contingency and structure to achieve optimum performance does not have potent propositions under varying structural variables and are often ambiguous, relying on simplistic assumptions to arrive at fit (Claudia and Schoonhoven, 1981; Galbraith, 1973).

Moreover, contingency theory does not explain how an organisation is able to achieve legitimacy in an environment which might not subscribe to the very objectives of its being, For example, a wine production facility in a predominately orthodox Muslim country despite its other contingencies being in a fit or in congruence (Donaldson, 2001) with the structure, might not have social endorsements.

2.7 Conclusion

Modern dynamic organisations manoeuvre to ensure continuous innovation as part of their strategies and strive to achieve fit to become effective organisations. Accordingly, contingency theory is adopted to provide an understanding of the structures that are successful in delivering positive outcomes.

The contingency theory approach to organisational design states that the structures that fit the contingencies can produce beneficial outcomes. In contrast, the institutional theory proposes an institutional fit that produces beneficial results for the organisation.

It can be argued that contingency fit culminates in internal effectiveness, and institutional fit produces external legitimacy and support. Both contingency and institutional theories provide a theoretical basis for this thesis, which aims to examine the Grameen Bank's microfinance social business model in the Australian context. According to Donaldson (2001):

> *Both contingency and institutional theories postulate a fit or matching between structure and some other factor. For contingency theory, the fit is of the structural organizational variable to the contingency variable. In institutional theory, there is an analogous fit between the actual structure of an organization and the structure that is institutionally approved* (9).

In other words, institutional theory sensitises researchers to identify the structures that result in legitimacy and external support (DiMaggio and Powell, 1983; Scott, 1995). Important considerations for the establishment of a self-sustaining microfinance social business in Australia include size, and nature, and dispersion of the market. Since the institutional environment is the result of regulative, normative, and sociocultural elements that shape not only the values and norms of a society, such environments also endorse or fail to support any systems and approaches that might be incongruent with institutional idiosyncrasies that are unique in given societies.

Thus, the adaptability of any model depends on the extent of adjustments necessary, and perceived by a society as beneficial. While external legitimacy is critical, the internal efficacy of design depends on how organisations respond to calibrations with external circumstances. For example, a time-tested microfinance social business model that is successful in Bangladesh, can be in conflict with the social values and ethos, and even the legal and regulatory challenges in a different country like Austraia or the USA.

While theories explain the social phenomena and underlying causes and effects that distinguish one society from the other (Merton, 1957) , it is important to understand how specific concepts assume various expressions when operating in dissimilar contexts. Since, the aim of this thesis is to map poverty in Australia, and to investigate the opportunity of replicating GB microfinance model for financially excluded income-poor Australians, it is imperative that various approaches to poverty and its operationalisation in dissimilar economic and social contexts are understood. The extant literature provides that platform. Chapter 3 discusses various approaches to poverty, its nature and implications followed by poverty mapping of Australia.

Chapter 3 Approaches to Poverty and Their Implication

3.1 Introduction

Poverty is defined either in terms of consumption; a direct measure, or in terms of income; an indirect measure (Ringen, 1988). The absence of a clear approach to define and measure poverty can be attributed to a number of social and economic factors that determine the well-being of individuals in a given society, as opportunities are largely the outcomes of institutions and systems that implement policies for its citizens.

Smith (1976) and Sen (1993) asserted that creating opportunities through institutional mechanisms to expand access to goods and services are preconditions for human development. The insistence of Yunus (2008) on poverty being a systemic fallout, resonates with Sen's (1999a) capability enhancement of individuals to attain a given level of functioning (Saith, 2001) to benefit and participate in economic activities. The common view of poverty being the result of lack of income or inadequacy of income by an individual, therefore, is considered narrow and unworkable (Kothari, 1995; Sen, 1983; Sen, 1997).

Different concepts of poverty have different implications for policy, and for action as they identify different people as being poor. The concept of poverty now encompasses issues like vulnerability, inequality, and human rights, in addition to the bare physiological needs. The elaboration of various approaches to poverty and their implications in this chapter helps to explain the circumstances concerning policies and strategies to redress the specific nature of poverty and inequality in Australia.

3.2 Poverty and Wellbeing

Poverty, in its simplest expression, is the lack of wellbeing. It is, therefore, pertinent to understand the pathways to achieve wellbeing, be it through institutional mechanisms or by creating enabling conditions that nourish and sustain wellbeing. Wellbeing can be conceived *in terms of the interplay of three dimensions: the material, the relational, and the subjective, also referred to as cognitive* (McGregor and Sumner, 2010: 105).

As indicated earlier, poverty in common parlance is understood in terms of material deprivation and subsequently, extended to social exclusion and inequality with their associated consequences.

Sen (1993) explained deprivation and associated impact through his capability approach. The enhancement of individual capabilities to perform in a society for availing opportunities are the way to address the issue of exclusion and therefore, the elimination of poverty. The three dimensions, proposed by McGregor and Sumner (2010), focus beyond incomes by adopting a perspective of people's ability to perform in a myriad of situations and not limited by a focus on just one or two dimensions. Here, a third dimension, subjective experiences, and feelings, are integrated into the framework to understand the causes, symptoms and effects of poverty with the objective to achieve wellbeing.

Wellbeing, therefore, is the result of the interaction of capabilities of individuals with the societal conditions in which they reside. Capabilities and policy interventions as shown in Table 3.1, can be illustrated by linking the desired outcomes to the Millennium Development Goals (MDGs) launched by the United Nations in 2000 (UN, 2014) that have provided impetus to the governments, and development agencies to the moral challenges of global poverty.Table 3.1 succinctly identifies the interventionist aspect to achieve wellbeing as part of policy direction.

Table 3.1 Wellbeing, Capabilities, and Conditions: Policy Interventions for Wellbeing

Nature of Intervention	Material	Relational	Subjective
Capabilities interventions	Asset transfer Schemes. Credit and savings schemes (MDG1).	Skills development and empowerment programmes (MDG2).	The social and cultural dimensions of education programmes (MDGs 2, 3, 5, 6).
Conditions interventions	Land reform and markets regulation.	Legal reform. Rights-based approaches and governance reforms.	Campaigns for social and cultural reforms.

Source: McGregor and Sumner (2010: 27).

The MDGs were launched with the resolve to address poverty and hunger in the poor and developing countries. However, global uncertainty after the Global Financial Crisis (McKibbin and Stoeckel, 2009) has exacerbated the income inequality and deprivation within the developed world as well. It is evidenced by the economic uncertainties faced by the G8 countries (Georgiadis, 2013) and reduction of official aid flow from the developed to the developing countries (UN, 2013a)

In 2014, about 20% of budget savings of the Australian Government were derived by reducing the aid budget (COA, 2014c). This action can be attributed to the forecast of economic hardship based on the current global realities. To examine the prospect of modelling a microfinance social business in Australia, a close examination of the nature of inequality, income disparity, and deprivation has been undertaken from the perspectives of the Federal Government's policy interventions and prerogatives to reduce the gap of inequality and to enhance the wellbeing of the Australians.

3.3 Dimension of Poverty

Poverty is not unidimensional (Alkire and Emma, 2010; Niemietz, 2011). A single definition or a concept is unable to capture its causality and consequences. It is often argued that poverty reduction is possible by faster economic growth (Adams, 2003; Kirkpatrick et al., 2001). But this assumption is challenged on the premise of an unequal impact of economic growth on the whole population (Beck et al., 2004). The growing number of poor in Australia (Phillips et al., 2013; ABS, 2014c), despite more than two decades of unbroken economic growth (Ryan, 2014) demonstrated that economic growth or increase in the overall national income is not a guarantee to eliminate poverty.

Similarly, income redistribution strategy through state interventions based on Keynesian principles (De Regil, 2001) has not been effective in containing and alleviating poverty in a sustainable way. Creighton (2014) suggested that welfare dependency discourages employment and self-reliance and creates a permanent underclass of welfare recipients. Multifaceted manifestations, in spite of a strong social welfare system, and a strong economy, can be related to the multidimensionality of poverty which requires conceptualising poverty for operational definitions to capture its causalities for remedial actions.

3.4 Conceptualisation of Poverty

Ambiguity in the conceptualisation of poverty might result in framing ineffective measures to address it. Clear operational definitions that identify the causes and nature of poverty are instrumental in undertaking strategies and policies that embrace the multidimensional nature of poverty in all its expressions. For example, relative poverty that assumes varying income levels for measuring wellbeing in a specific society (Whiteford, 1997), is different from the causes and effects of absolute poverty (Simler and Arndt, 2006) in which the scale and depth of deprivation are more profound requiring different policy approaches and implementation strategies.

To have a clear understanding of the causes and effects of poverty, conceptualisation and definition of the key approaches to poverty are summarised in Table 3.2.

Table 3.2 Key Approaches to Poverty and Operational Definitions

Approaches	Conceptual and Operational Definition
Subsistence or Physiological Approach (Rowntree and Bradshaw, 2000; Townsend, 2006b; Sen, 1981)	Indicates bare minimum food and necessities to maintain physical and nutritional efficiencies. This approach emphasises limited food intake as the principal cause of poverty and ignores other necessities like social, psychological, political, environmental, and participatory aspects that impact on a person's wellbeing.
Basic Needs Approach (Townsend, 2006b; Townsend, 2006a; Sen, 1981)	The approach is an extension of subsistence needs. It includes healthcare, water, sanitation, education, clothing, shelter. The purpose of this approach is to ensure that individuals maintain minimum levels of health to avoid undernourishment in addition to having access to basic food intakes.
Participatory Approach (Caterina et al., 2003; Chambers, 1995; Chambers, 2006; Fuglesang and Chandler, 1993)	Posits participation in sharing and enjoying the wealth and opportunities - protection against domestic violence and gender discrimination, a voice in family decision making. The approach argues that without safeguarding through effective institutional deterrents to discriminatory conducts, wellbeing of an individual is compromised.
Monetary Approach (Caterina et al., 2003; Henderson, 1975a; Johnson, 1987; MIAESR, 2012)	The approach is based on income levels designated for various types of income units. Income is considered as the prime determinant of an individual's wellbeing. This view is based on the premise that income enables an individual to access other opportunities including sociopolitical empowerment.
Social Exclusion Approach (Townsend, 2006a; Vinson et al., 2007; Devicienti and Poggi, 2007; Fløtten, 2006)	Describes marginalisation process in rich countries despite welfare provisions. The factors precipitating poverty include sociocultural barriers that are sometimes hard to overcome but need constant vigilance and support to integrate the marginalised communities in the mainstream society enabling them to access the opportunities offered to other members.
Relative Deprivation Approach (Johnson, 1987; Sen, 1983; Townsend, 2006a; Sen, 1981)	This approach distinguishes between poverty and inequality. The approach identifies the nature of deprivation and the resultant impact on an individual's wellbeing in situations of extreme income inequality. The social and psychological consequences arising out of unequal income and asset holdings incapacitate individuals to participate fully in opportunities available in the society. Examples like the high cost of special education programme or facilities that have consequences in creating an imbalance in opportunities and equality among the citizens. Policies requiring redressing problems of inequality need an understanding of underlying causes of such imbalances to avoid distress and deprivation to the citizens.
Capability Approach (Alkire, 2002; Saith, 2001; Sen, 1984; Sen, 1985; Sen, 1993; UNDP, 2006; UNDP-IPC, 2006)	Assumes that human capabilities are enhanced or reduced owing to access or lack of opportunities available to them. The capability approach is based primarily on two major concepts: Functioning and capability. Functioning relates to being well fed; taking part in the community; being sheltered; relating to other people; being healthy; caring for others and associated

Approaches	Conceptual and Operational Definition
	enablers. The capability is the potential functioning of an individual. It is enhanced or reduced owing to individuals attainable freedom of lifestyle choices, not constrained by political or social restrictions.
Ethical Poverty Line Approach (Edward, 2006)	The approach questions the veracity of policy undertakings of governments and international agencies in defining poverty threshold and its eradication. The approach sets a threshold to define poverty in terms of income or opportunities that are appropriate to ensure a minimum living that are morally justified and ethically defensible.
Human Rights Approach (Robinson, 1997; Runciman, 1966; Yunus, 1998a)	Like ethical poverty line, the human rights approach involves deep moral and policy prerogatives to address the issues of poverty and hunger: The rights of an individual to live with dignity and opportunities. To live a poverty-free life by citizens is seen as more of a fundamental right as opposed to charity or philanthropy; an obligation of governments to ensure a poverty free environment through their policy undertakings. Access to credit and other institutional opportunities by income-poor individuals to enhance their wellbeing is considered to be basic human right under this paradigm.

Approaches such as subsistence approach and basic needs approach; participatory approach and social exclusion approach; monetary approach and relative deprivation approach; ethical approach and human rights approach; in Table 3.2 share overlapping features between them. Understanding these features are useful while considering any policy prescriptions, and for framing laws and regulations to address poverty, inequality, and deprivation in specific countries or regions. The effectiveness of such measures depends on an understanding of how poverty is defined in those specific social and economic contexts (Deaton, 2005). The implications and relevance of key poverty measuring approaches employed in this thesis are discussed below.

As explained earlier, poverty is the lack of wellbeing resulting in deprivation, inequality, stress, and sufferings (Tiwari, 2009). The extent of this inequity depends on the nature and depth of poverty in which they live. For example, absolute poverty is a situation when an individual fails to avail the minimum food intake necessary to maintain his /her nutritional balance and physical efficiency (Niemietz, 2011; WB, 2006). Townsend (2006a; 2006b) suggested that allowances for clothing, fuel, and other essential items should also be included in determining the level of absolute poverty.

Townsend (2006b) is of the view that the basic needs approach helped in establishing criteria for the development agencies to formulate strategies for undertaking community development under poverty-focussed programmes. The basic needs approach gained popularity in the 1970s and was strongly supported by ILO (Vandenberg, 2006) and the World Bank (WB, 2015).

In 2005, the World Bank (2008: 5) set the international extreme poverty line (IEPL) at *USD1.25 a day,* and subsequently revised *to USD 1.99 a day* (WB, 2016: 27). The IEPL was calculated by averaging the national poverty lines of the 20 poorest countries in the world, adjusting with the purchasing power parity (Lafrance and Schembri, 2002; WB, 2008). This approach is widely discussed as part of the Millennium Development Goals e.g. MDGs (WB, 2010).

Amartya Sen’s (1991a; 1981) propositions on deprivation, poverty, and famines have dwelt at length on the causes and effects of poverty from the perspectives of inability to enhance one’s capabilities owing to lack of access to the essential services that a citizen is expected to have in society (Alkire, 2002) .

The participatory approach (PA) argues that statistics on income, consumption, distribution, healthcare, education and other aspects of life that are considered basic for a poverty and deprivation-free life are not reflected in other measures without the participation of members to determine the actual poverty situation. For example, poor women living in domestic violence or those deprived of the family decision-making process. The major advantage of this approach is that it largely avoids externally imposed standards. While the PA is considered complex because participation can be difficult to quantify, this approach nevertheless includes processes, causes, and outcomes of poverty as perceived by the poor (Laderchi et al., 2006). Fuglesang and Chandler (1993) critically examined the effectiveness of PA for addressing poverty and financial exclusion.

The Monetary Approach (MA) is the most commonly used paradigm for identifying and measuring poverty. This approach defines poverty with a shortfall in consumption or income from an agreed or assumed poverty line. The monetary measure for the goods and services to determine the degree of poverty or deprivation of an individual as a common denominator. Laderchi et al. (2006) have put this succinctly:

> *The valuation of different components of income or consumption is done at market prices, which requires identification of relevant market and imputation of monetary values for those items that are not valued through the market, such as subsistence production and social services and, in principle, other public goods and services* (10).

In the Australian context, Henderson (1975a) recommended a set of poverty lines in the Commission of Enquiry into Poverty in 1975. Disposable income essential for supporting the basic needs of a family comprising two adults and two dependent children became an established benchmark. Also, an index of per capita household disposable income with periodic updates on the estimates provided by the Australian Bureau of Statistics (ABS) were recommended (MIAESR, 2012).

The benchmark level and criteria as set out by Henderson (1975b) originated from a determination by the Australian Conciliation and Arbitration Commission (ACAC), which until 1966 was empowered to fix the minimum wage rate for Australian unskilled manual workers. It is often considered simplistic in its application and does not consider broader aspects of inclusion and deprivation that other approaches seek to address.

It might be noted here that the nature of poverty and associated measures depend on the economic circumstances of the people. The absolute poverty lines are based on the minimum nutritional intakes necessary to maintain health and the provision of shelter or housing.

Relative poverty lines, however, are based on the average income of the whole society (Johnson, 1987). Being a member of the Organisation for Economic Cooperation and Development (OECD), Australia falls into the category of relative poverty, and the criteria range from *50% to 60% of the median disposable income after adjusting for the household size* (Förster and Pearson, 2002: 13). According to Townsend (1979) relative poverty occurs when:

> *Individuals, families, and groups in the population lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or are at least widely encouraged or approved of, in the societies to which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns and activities* (31).

Despite subjectivity of the estimates which are based on aggregates or averages, and the inability of this approach to identify multifaceted manifestations of poverty, the income-based measurement of poverty has been endorsed by a number of commentators (Harding and Mitchell, 1992; Johnson, 1987; Saunders, 1994; Whiteford, 1985). Income being the key determinant, among others, to access other opportunities, is considered the optimum criterion on measures adopted for policy and operational purposes.

The social exclusion approach (SEA) describes the process of marginalisation and deprivation that can arise even in a rich country like Australia with comprehensive welfare provisions. It is a reminder of the multiple facets of deprivation that the monetary approach is not always able to address. The analysis of exclusion lends itself to the study of structural characteristics of society and the situation of marginalised groups such as ethnic minorities like Aborigines and Torres Strait Islanders (Devicienti and Poggi, 2007).

The SEA emphasises the distributive justice (Runciman, 1966) proposing that deprived individuals are not be able to access better life without some form of redistribution of opportunities across existing structural arrangements. Ludi and Bird (2011) added the concept of adverse incorporation while explaining SEA. Ludi and Bird (2011) insist that:

> *The exclusion is not the only danger for poor people. They may be very much included in social, economic and political systems - but in a way, that is to their detriment. The way in*

> *which poor people are included (incorporated) can be damaging (adverse). So, they may have little choice, but to take work that is paid so badly that they will never have the opportunity to save and escape poverty, they may have complex relationships with patrons' that reinforce their socially inferior position, and they may vote and be nominally part of a democratic state, but one which does not truly represent their interests* (5).

Relative deprivation approach (RDA) is similar to the SEA and points to the difference between poverty and inequality. This approach is important from policy and distributive perspectives as Townsend (2006b) has aptly said that:

> *The poor people are not just the victims of misdistribution of resources but, more exactly, they lack or are denied, the resources to fulfil their social demands and observe the customs as well as the unfolding laws, of society* (6).

Deprivation can be attributed to a lack of access to opportunities from structural distribution flaws, or legal or regulatory systems that might result in creating inequalities among people. Deprivation can also result in poverty. For example, lack of access to financial services by families or individuals due to their inability to provide collateral or certain forms of guarantees can relegate them to poverty, or some form of inequality.

The key argument in capability approach (CA) is that neither income nor utility, adequately represent human wellbeing. Sen (1993; 1985) posits that CA can be used to assess individual advantage in a range of different spaces, and can be adjusted to focus on inequality, social justice, living standards and rights and duties, among other things. Finally, Sen (1993) recognised that the CA is not sufficient for all evaluative purposes.

Sen (1999a) also emphasised that to understand poverty, a composite approach to life's fulfilment is to be undertaken. In this context, he refers to five instrumental freedoms, namely economic facilities, social opportunities, political freedom, security and transparency guarantee (Fukuda-Parr, 2006). One of the strengths of Sen's (1999a) framework is its flexibility and internal pluralism that allows researchers to develop and apply it in many different ways (Alkire, 2002).

The ethical poverty line (EPL) approach has a deep policy and resource implications. The Millennium Development Goals (UN, 2014) to halve extreme poverty by 2015 is termed as a moral duty by the proponents of EPL. Setting a poverty line below the actual threshold that pragmatically addresses the wellbeing of the low-income population is questionable from a moral perspective. The poverty line of USD 1.25 a day by the World Bank, revised to USD 1.99 a day, being solely a monetary measure, is criticized for being inadequate and mono-dimensional. Edward (2006) questions the appropriateness of such a low-income threshold of poverty which is the median of 10 of the lowest national poverty lines in the world and is devoid of considerations of basic needs or the wellbeing of individuals.

The key premise of EPL approach is to alert multilateral agencies and governments in allocating resources commensurate with the overall wellbeing, and sustainable growth of the population and not be complacent in achieving targets that fall far below the actual poverty threshold.

However, the EPL approach is more concerned with the absolute poverty line. Underneath the presence of relative poverty in Australia and other developed nations, the ethical aspect of addressing the problems of the economically marginalised population is the need to integrate these elements into individual government's policies.

The human rights approach (HRA) can be viewed as an extension of the ethical perspective with a legal undertone in its assertion. The fundamental premise of the HRA is the understanding that human beings have some inalienable rights that are neither privileges nor charity. The Universal Declaration for Human Rights (UN, 1949) recognises human rights as the foundation of peace, justice, and democracy. Within the UN normative framework, in 1998 United Nations Development Programme (UNDP) adopted a policy of integrating human rights with sustainable human development.

In 2001 and 2002, the Human Development reports affirmed that human development is essential for realising human rights that are critical for full human development (UNDP, 2003). Mary Robinson, former President of Ireland (1990-1997), and former United Nations (UN) High Commissioner of Human Rights (1997-2002), and Professor Muhammad Yunus, the Founder of Grameen Bank in Bangladesh, the Nobel Peace Laureate 2006, can be regarded as two of the leading proponents of HRA. Yunus (2006d) asserted that:

> *Poverty is the absence of all human rights. The frustrations, hostility, and anger generated by abject poverty cannot sustain peace in any society. For building stable peace, we must find ways to provide opportunities for people to live decent lives* (4).

In the mid-1990s, the rights-based approach to development received an additional impetus with the appointment of Mary Robinson as the UN High Commissioner for Human Rights. The rights issue in development planning and execution was embedded into the overall strategy of multilateral agencies to address poverty as a matter of urgency, and this embeddedness influenced member countries to adopt a similar strategy at various levels of their institutional engagements (Alston and Robinson, 2005).

HRA is an essential tool for examining policy prerogatives of the Australian Government about its legal and institutional frameworks, developed to integrate low-income and financially excluded people into the mainstream economy. For these reasons, the ethical and human rights perspectives are embraced and incorporated in this thesis to examine government efforts to address the problems of financial exclusion and relative poverty among the low-income Australian population.

3.5 Conclusion

The operational definitions of poverty, discussed in this chapter, are used in understanding the Australian context about poverty mapping and microfinancing in this thesis. The literature review unequivocally established that poverty is not monochromic. Recognition of multidimensionality of poverty is critical for policy prescription and effective implementation of poverty focussed programmes.

However, various approaches to poverty are found to have overlapping features helping to assess and understand not only the impacts associated with being in financial hardship and social exclusion, but each also has a deep policy and operational implications similar to developing and poor countries. For example, social exclusion, relative deprivation, capability and human rights approaches are all intertwined in their operational implications in both poor and developed countries.

Though poverty is commonly understood to be a primary cause of material deprivation expressed in monetary terms, it is reckoned as inadequate to capture the actual experiences of people living in hardship. The issues like household composition, circumstances in health, education, location, and social interactions are important for the wellbeing of individuals and families (Johnson, 1987; Travers and Richardson, 1990). Social exclusion and deprivation are common in countries where there are severe income inequalities that affect the quality of an individual's ability to function, and her/his rights to have opportunities similar to more fortunate citizens in the country. Even in a developed country like Australia, there are deep pockets of poverty adumbrated by a comprehensive social welfare system.

With this discourse on various approaches to poverty and their operational implications, the next chapter discusses the poverty and inequality in Australia.

Chapter 4 Poverty and Inequality in Australia

4.1 Introduction

This chapter addresses the first of the three Research Objectives (RO) of this thesis: that is, to map the poverty and inequality contour and its nature in Australia. The chapter critically reviews and discusses extant secondary data on poverty, inequality, financial exclusion, and various forms of discriminations to map Australian poverty and its repercussions. The chapter also discusses the efficacy of actions of the Australian Government, and the private sector to address poverty and inequality. The findings in this chapter provide critical background information to answer the Research Question (RQ) 1: that is, to determine whether there is a market for viable microfinance operations in Australia.

Most Australians view poverty in the light of economic conditions experienced by people in poor and developing countries (Horn, 2011; Saunders, 2004; Saunders, 2003). However, the existence of a comprehensive social safety net programme (SNP) and increasing inequality (Fletcher et al., 2013; ACOSS, 2015) are indicators of poverty. Despite the presence of *social welfare policies and programmes to support the disadvantaged within the community* (Gallet, 2010: 3), manifestations of various forms of poverty and inequality are becoming increasingly apparent in Australia (ACOSS, 2012c; ACOSS, 2012b; Davidson, 2008; Harjani, 2014).

Extant literature reveals that about 17% or 3.04 million Australians are financially excluded, and this problem is on the rise (Wilson, 2012a; ANZ, 2004b; Connolly, 2014b). The percentage of casual and part-time employees is about 30.23% of the labour force or 3.49 million people (ABS, 2014a) who are mostly low - income earners, and many of them are dependent on welfare support to bridge their income shortfall (ANZ, 2004b; ACOSS, 2012a). Fenna (1998) argued that *though welfare, ideally meant to prevent poverty, actually discouraged work* (293). This view of Fenna complements Esping-Andersen's (1990) assertion that SNP helps in maintaining the prevailing state of income inequality of welfare recipients. In other words, SNP is neither a pathway to economic integration nor an incentive to work; it is purely a charity by the state and is susceptible to cut or reduction depending on conditions of the economy.

Given that Australia enshrines the principles of unity in diversity (Bloemraad, 2007), a fair go and mateship (Burnside, 2007; Herscovitch, 2013), it is imperative that legal and institutional systems promote and nourish the value of multiculturalism. Until 1975, the dominant Anglo-Saxon culture was given an explicit legal endorsement to prevail over others (Babacan and Babacan, 2007). The White Australia Policy (Meaney, 2008; Dunn et al., 2004) that sowed the seed of sociocultural and political discriminations in Australia, is still having a waning impact on the country's legal and social systems (ATSIC, 1998; Nicholson, 2000).

In reviewing and discussing the multitude of extant literature on Australian poverty, and its consequences, it is clear that any meaningful understanding of poverty needs to reckon its non-monochromic nature. This is conceptualised in Figure 4.1 showing the multiple causes and impact of poverty. The vicious cycle into which an individual may be trapped into due to one or more causes, leading to her/his deprivation is also discussed and contextualised to the Australian situation.

Poverty mapping encompasses a whole spectrum of socioeconomic and political issues affecting the wellbeing of individuals in a given society. Therefore, identification of the key indicators was critical to the understanding of nature, causes and consequences of poverty. Owing to the multidimensionality of poverty, multiple sources of data are tapped including social and economic data, scholarly journals, and the views of policy makers, non-government organisations (NGO) and practitioners. Accordingly, secondary data originating from the above sources, lent credibility and objectivity to the poverty mapping. Since people's cognitive perceptions are inductive, the multiple sources of data enabled the researcher to collect rich arrays of cognitive inferences (Feeney, 2007) on the main issues in mapping the Australian poverty.

The mapping exercise revealed that both monetary and non-monetary causes contribute and exacerbate the intensity and impact of poverty. Ultimately, poverty is the result of inequality perpetuated and nourished by society in a regime of unequal economic growth among various segments of the population (Naschold, 2002; Fields, 2000). In Australia, the forms of inequality range from economic disparity, sociocultural and divisive politics, and gender inequality. The persistently high unemployment rate among the Indigenous Australians and non-MES (i.e. mainly English speaking) immigrants are attributable to the direct consequence of sociocultural discrimination and exclusion.

4.2 From Inequality to Poverty

Inequality and poverty are often used synonymously and interchangeably in poverty discourse. Stilwell (2000) argued *that all societies are unequal, but not equally unequal* (81). Conceptualisation of various forms of inequalities are related to a society's norms and values. These include social hierarchy (e.g., the Indian caste systems) (Rao, 2010), forms of occupations; social divisions (e.g., like gender, age, race, ethnicity, and level of wealth or income) (ABS, 2015b).

Inequality is also perceived to be related to social injustice, and lack of wellbeing of individuals (WGEA, 2015; Pedersen and Walker, 1997). An extreme form of inequality leads to social imbalance and political fallout (Cramer, 2005; Gurr, 1970). Inequality obstructs social justice, denies socioeconomic opportunities, with resultant ill-being, discrimination, and deprivation, violating the political ideal of an equitable society. Poverty encapsulates the impact of such ill-being. Discrimination and deprivation are systemic issues that may exacerbate in a free market economy (Peet, 1975) unless enforceable policies are in place to regulate the market forces from being monopolistic and exploitative. Even strong advocates of capitalism like Gilpin and Gilpin (2000) cautioned about the concentration of wealth and power in the hands of a few.

Australia is a liberal democracy having a capitalist mode of production, and is governed by the principles of welfare capitalism (Schelkle, 2012 ; Esping-Andersen, 1990). In welfare capitalism, a modern welfare state protects its citizens from falling into extreme forms of inequalities. Esping-Andersen (1990) argued that this strategy maintains an equilibrium *or relative equality of poverty among state welfare recipients* (27). This argument of relative equality of poverty by Esping-Anderson (1990) can be construed as one of the outcomes of welfare support: maintaining a homogenous poverty level acceptable in a given society without causing serious sociopolitical acrimony (Stewart, 2010). It is in effect, the perpetuation of inequality, a taken-for-granted inequity in the society. In support of this outcome, Esping-Andersen (1990) elaborated that:

> *Means-tested assistance is provided to people of low income in which the limits of welfare equal the marginal propensity to opt for welfare instead of work. Entitlement rules are, therefore, strict and often associated with stigma; benefits are typically modest* (26).

Therefore, the prevalent inequality within a society, under this strategy is difficult to remove without effective state and private interventions connecting the welfare recipients to the economic value chain. The current state of inequality in Australia reflects this view of Esping-Anderson.

The term inequality has various connotations ranging from income to specific social outcomes (Douglas et al., 2014). Poverty is a manifestation of different degrees of inequality in life domains when minimum requirements are unfulfilled (Kostenko et al., 2009; Scutella et al., 2009). The nature and depth of poverty, therefore, relates to the nature and extent of inequality in society (Whiteford, 2012). In discussing Australian poverty in this thesis, these two words i.e. poverty and inequality are used in tandem.

According to Ravallion (2001), *inequality is an impediment to pro-poor* growth (1809), and poverty is the result of unequal distribution of income and assets, and is the manifestation of inequality in socioeconomic lives of citizens (Aghion et al., 1999; Bridsall and Londono, 1997; Clarke, 1995). Stewart (2010) approached this issue from economic, social, political and, cultural perspectives regarding dimensions and impacts (see Table 4.1).

While Stewart (2010) treated social and cultural inequalities separately, Griswold (2012) grouped these two dimensions stating that *culture represents a society and its values, norms, beliefs, aspirations and ethics of the individuals* (35).

Table 4.1 Types of Inequality, Dimensions and Impacts

<table>
<tr><th>Types of Inequality</th><th>Dimensions of Inequality</th><th>Impact of Inequality</th></tr>
<tr><td>Economic or Income</td><td>• Asset Ownership: Financial, human, social and other tangible assets.
• Access to income, credit, and employment.</td><td rowspan="4">• Deprivation, stress
• Unemployment
• Poverty.
• Discrimination
• Exclusion
• Lack of integration
• Racial profiling
• Lack of opportunities
• Lack of productivity
• Homelessness.
• Lower life expectancy
• Malnutrition
• Gender bias
• Family violence
• Helplessness
• Inability to voice grievances
• Lack of participation
• Unrest and disharmony</td></tr>
<tr><td>Sociocultural</td><td>• Social structures: relationship among citizens
• Treatment of individuals in society,
• Education, healthcare, and housing
• Recognition of cultural variations: religion, ethnicity, race, customs</td></tr>
<tr><td>Gender</td><td>• Gender equality
• Equal pay and privileges</td></tr>
<tr><td>Political</td><td>• Political opportunities
• Governance</td></tr>
</table>

Source: Adopted from Stewart (2010: 2).

Australia, as a multicultural society, needs to maintain balance and equity among its various ethnic minorities and cultural groupings to preserve national unity, peace, and productive participation of all its citizens in its social, political and economic lives. According to Koopman et.al (2005), multiculturalism can be an impediment to immigrants' integration into the mainstream society. Consequently, the problems of social exclusion among new arrivals can result in a lack of opportunities to participate in society.

Stewart (2010) included gender within a broad cultural category. This is being treated separately in this discourse. Because, gender debate invariably involves women's rights and access to equal opportunities (Pippa and Inglehart, 2001). Moreover, there is a perceptible tendency *to subordinate women within patriarchal systems and structures* (UNESCO, 2014: 7). Women, in their own right, are partners and participants in the growth and prosperity of society. Denial and subordinating women rights contribute to social and economic disparities (Nussabaum and Glover, 1995). Therefore, gender is considered equally important like income and wealth as an important determinant when measuring inequality.

Education, health care, housing, credit, recognition of individual identities (cultural and ethnic differences) involve causal relationships and contribute to enhancing individual capabilities and reducing inequalities in society. Accordingly, sociocultural and political inequalities have a direct bearing on economic inequality, the primary measure of poverty (Deaton, 2005; Townsend, 2006b).

4.3 Multidimensionality of Australian Poverty

Poverty is multidimensional, suggesting multiple causes and effects of poverty (Alkire and Emma, 2010; Alkire, 2008; Alkire and Sumner, 2013; Scutella et al., 2009). Although, low income and lack of wealth are often considered as key indicators of hardship, the overall well-being of a population depends *on both monetary and non-monetary variables* (Bourguignoni and Chakravarty, 2003: 26).

Alkire and Emma (2010) developed a new Multidimensional Poverty Index (MPI) *using micro datasets of household survey for 104 countries covering about 78 per cent of the world population* (1). This index captured different dimensions of poverty and its impact on the lives of people.

The United Nations (UN, 2001) report, entitled Roadmap towards the implementation of the UN Millennium Declaration, aptly pointed out that *all the issues around poverty are interconnected and demand crosscutting solutions* (3). Anand and Sen (1997) cautioned that:

> *Taking income as the only measure of poverty refrains taking an interest on different aspects of deprivation and cannot be used as an index of human poverty* (5).

Singling out *income as the root cause of poverty often provides insufficient policy guidance regarding deprivation* (Alkire, 2009: 3). Income, though a predominant cause, often fails to distinguish between those who are disempowered and socially discriminated.

Non-monetary factors like social exclusion (Devicienti and Poggi, 2007; Vinson et al., 2007), discriminatory practices and institutional barriers (Caterina et al., 2003; Fuglesang and Chandler, 1993), as well as policies devoid of moral and ethical principles (Edward, 2006) exacerbate the ill-being of people in hardship. Disempowerment is viewed as another principal cause of poverty. Disempowerment is a systemic issue and is the result of a number of factors like income, and various forms of social and economic discriminations. Different approaches to poverty (Chapter 3) identify the multiple causes of disempowerment. Sen's (1993; 1985) capability approach and Yunus's (1987a) credit for self-employment are two complementary policy options to address various forms of discriminatory practices.

From the extant literature and contemporary discourse on poverty, a multidimensionality of poverty in Australia is conceptualised in Figure 4.1. This figure illustrates the monetary and the nonmonetary causes of poverty with resultant disempowerment, social exclusion and lack of participation. Inequality is the outcome of the above three cardinal factors. The nature and depth of poverty, therefore, is dependent on the extent of inequality in society.

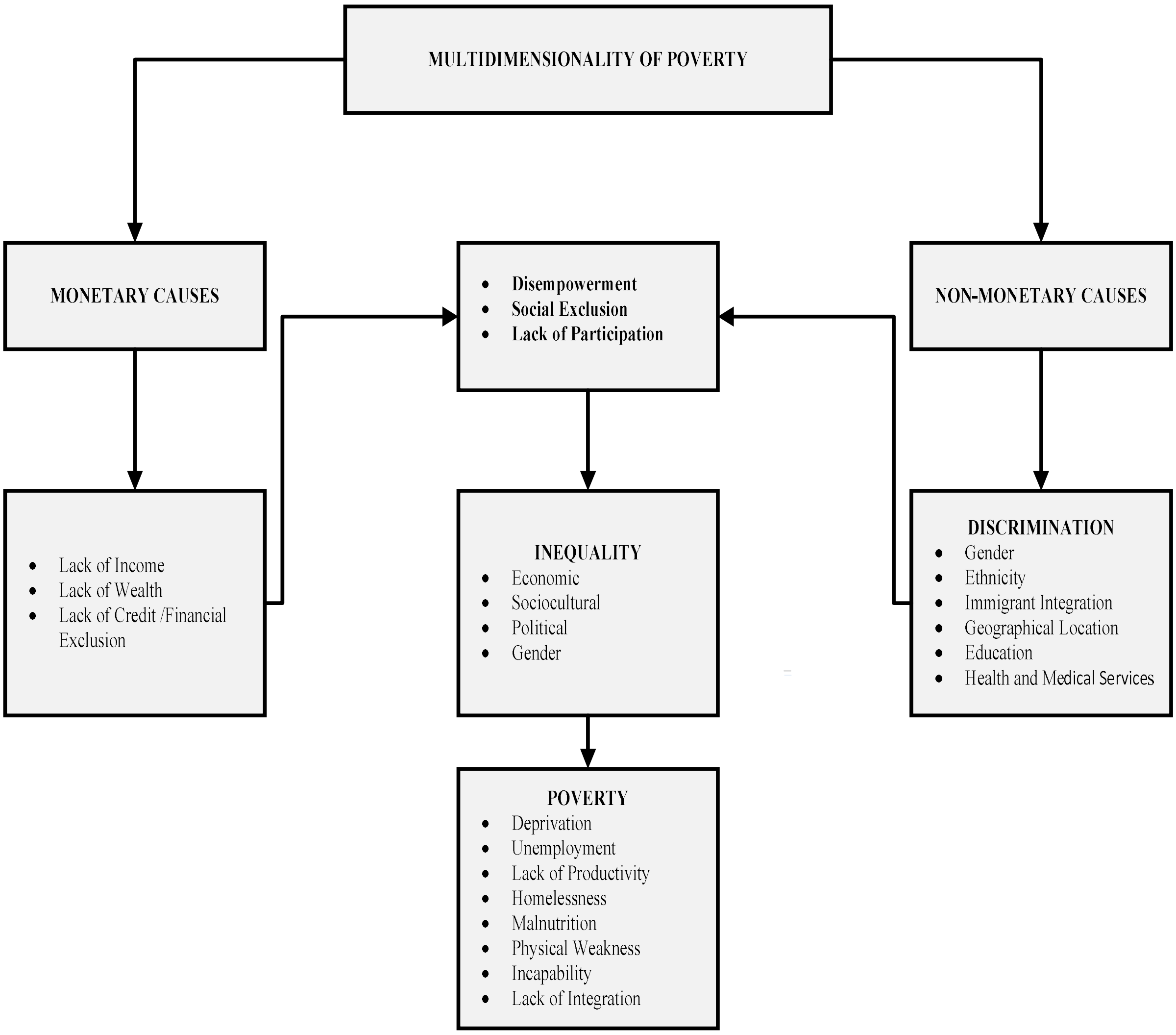

Figure 4.1 Conceptualisation of Multidimensional Causes and Effects of Poverty

Discrimination has various forms including limited access to financial services by the poor (Connolly et al., 2012; ANZ, 2004b), gender bias (Conway, 2012; Connell, 2003), racial and ethnic profiling (Ratcliffe, 2005; OSI, 2009), and geographical location (ACOSS, 2015). Lynch and Tsobaris (2004) reported that the *provision of, or access to health and medical services, is widespread across Australia and Victoria, and remains lawful* (5). Mahmud (2013) reported that workplace discrimination of skilled migrants in Australia *can result in anxiety, lack of commitment, frustration and an impediment to integration* (232) within the society.

Discrimination results in inequality (Deborah, 2003), the implications of which encompass the whole spectrum of social life (Stewart, 2010), and define the nature and extent of poverty in any society (Grusky and Kanbur, 2006). The manifestations of inequality, among others, take the forms of economic hardship, deprivation and trauma (Gordon, 2005; Phillips et al., 2013), lack of opportunities (Beck et al., 2004; Yunus, 1994), and resultant incapability (Sen, 1993) to participate in economic and social life (Devicienti (Devicienti and Poggi, 2007). The natural consequences of dimensions and extent of inequality (see Table 4.1) exacerbate poverty in the lives of affected people.

Kostenko et.al. (2009) illustrated the multidimensional manifestation of poverty, citing seven life domains: (1*) material resources, (2) employment, (3) education and skills, (4) health and disability, (5) social, (6) community, and (7) personal safety* (5). The impact of poverty varies across the different spectrums of age, gender, and condition of people. For example, single parents, female-headed households, people with multiple disabilities, those with low educational achievements, immigrants from non-English speaking countries, groups living in remote areas, and Aboriginal Australians are excluded from one or more of the seven life domains (Kostenko et al., 2009).

Recognition of the multidimensionality of poverty is critical in effective policy formulation to address its multiple causes and effects as illustrated in Figure 4.1. Green (2002) concluded that the so-called crises of welfare states in the post-industrial advanced capitalist nations, including Australia, were results of structural and economic shifts. Green's (2002) observations are in sync with the world of changing socioeconomic realities where the root causes of poverty are traceable to multiple factors, the solution of which lies in their identification in being able to address these.

4.4 Inequality in Australia

Figure 4.1 conceptualised the causal connections between different monetary and non-monetary factors of the multidimensionality of poverty. It showed how inequality results in poverty and its manifestations in the lives of an individual. The following sections discuss the four types of inequalities in the Australian context: economic, sociocultural, political and gender, as identified in the conceptualisation of poverty.

4.4.1 Economic Inequality

Economic inequality is a key determinant of lower income population and their vulnerability to poverty and associated consequences. Economic inequality is measured by income and wealth. In Australia, economic inequality has been on the rise (ACOSS, 2015). Whiteford (2013) reported that until 2008, the top 10 per cent of the Australian population were among the highest income earners of any advanced economy. Australian Council of Social Service (ACOSS, 2015) reported that:

> *A person in the top 20% income group receives around five times as much income as a person in the bottom 20%. A person in the top 20% wealth group has a staggering 70 times as much wealth as a person in the bottom 20%.* (8).

Australia's inequality is higher than the OECD average. Richardson and Denniss (2014) noted *that the richest seven individuals in Australia hold more wealth than 1.73 million households in the bottom 20 per cent* (2). The people who comprise the bottom 20% income earners in Australia are sole parents, people over 65 years, immigrants from non-English speaking countries, and those living outside the capital cities or in remote regions (ACOSS, 2015).

Oxfam (2014) cautioned that wealth concentration has the potential to bend rules for the wealthy, and can subsequently result in non-democratic governance that compromises policies targeted towards equal opportunities. One example of such inference is the concern expressed by the former Australian Federal Treasurer Wayne Swan during 2010-2013. Citing Swan, Tingle et.al.(2012) reported that:

> *The Australian fair go was under threat from an elite group of wealthy business people who were using their wealth to undermine sound public policy and threaten our democracy* (15).

The proposal to introduce resource super tax in Australia was not successful. Many attribute the non-introduction to the influence of powerful mining super-rich elites (Economist, 2012; Falk and Settle, 2011; Glezos et al., 2012).

Another reason for the widespread income inequality is a relatively large number of people in part-time and casual employment (OECD, 2012). This phenomenon is evident in the percentage of part-time and casual workers. That is, in May 2014, about 30.24% or 3.49 million people out of the total labour force of 11.6 million (ABS, 2014a) was not included in the overall unemployment rate of 5.8 per cent. The Australian Workforce and Productivity Agency reported a rising unemployment since the GFC (AWPA, 2014).

ACOSS (2015) estimated that the real wages of the Australians increased by 50% on average from 1985 to 2010. But the increase for the lowest income groups was only 14% compared with 72% of the highest. This significant difference between the cohorts further demonstrates that inequality has widened. Extreme income and wealth inequality among the Australians have resulted in social and financial exclusions for a significant number of people and compromised the ideal of fair go as part of the Australian egalitarian multiculturalism (Azpitarte, 2013b; Connolly, 2014b).

4.4.2 Sociocultural Inequality

Sociocultural inequality in Australia is traceable to its history which is *rooted in a deep-seated racism and prejudice* (Teicher et al., 2002: 209). Contained within the Immigration Restriction Act of 1951 and Migration Act of 1958, discrimination and unfairness still permeate through the social and institutional psyche in Australia (Williams, 2010). Tavan (2005) noted that among many Australians *a residual appeal to White Australia policy* (139) prevails. Therefore, the nature and history of Australian multiculturalism are essential to understanding Australia's unique social psyche and nature of its social inequality.

Sowey (2013) identified four features of a fair society: *a fair legal system, fair social structures, fair treatment to individuals in society, and respectful relationship among the citizens* (1). These four principles of fairness can be considered foundational for any society in providing equal opportunities for its citizens, and more so, for Australia. A country with a rich tapestry of multiculturalism (Henry and Kurzak, 2013), Australia is undergoing assimilative changes *stimulating new debates on religious diversity and accommodation, and the need to fight racism and discrimination in everyday life* (Moran, 2011: 2167).

The National Agenda for a Multicultural Australia (NAMA) outlined three essential dimensions of Australian multiculturalism. These are, cultural identification - the right to express cultural, religious and language within defined limits; social justice - equality of opportunities irrespective of place of birth, ethnic, religion, or any other denomination; and economic efficiency - equal opportunity for the citizens to develop and utilise their skills and talents (Moran, 2011).

Since 1973, efforts to create a fair and equitable society in Australia has relied primarily on the principle of *tolerance of ethnic groups on condition that the dominant Anglo culture ultimately prevailed* (Babacan and Babacan, 2007: 31). It may be noted that *about 69% of Australian population rely on wages and salary as the primary source of income, and about 19% on government benefits* (ACOSS, 2015: 48), and therefore, employment opportunity for its citizens can be taken as one of the main indicators of sociocultural equity. ACOSS (2015) reported that the majority of low-income people in Australia are more likely to be from non-MES (i.e. mainly

English - speaking) countries, and those in the high-income brackets are either born in Australia or from other MES countries.

Mahmud (2013) reported that foreign qualifications and experiences of highly educated and skilled immigrants were undervalued by Australian employers, often forcing them to go for less than desired jobs. However, migrants, proficient in English, and coming from MES countries were less likely to face this problem. Inequality in employment, even for skilled migrants, has negative consequences on motivation and productivity. Both Teicher et al. (2002), Ho and Alcorso (2004) found that migrants from non-MES countries to Australia suffer from multiple forms of discriminations in workplaces.

Limpangog (2008) in a study on 20 skilled Filipino migrants during 2006 -2008 found gender and racial prejudice despite a number of *anti-discrimination laws, and multicultural rhetoric pertinent to this domain* (211). Uncalled-for bullying and disrespectful behaviour were other examples of behaviours perpetrated by their white colleagues.

In Australia, people from other countries and holding different religious beliefs, save the ones from Anglo-Saxon heritage, also experienced discrimination (Marriner, 2014). HREOC (2004) reported that despite similar educational attainments Muslim Australians were more likely to work in *blue-collar occupations, and 43% Australian Muslims, compared to 27% of all Australians, had an average weekly income under AUD 200* (214,215).

Sayed and Pio (2010) in their study on Muslim migrant women employees recorded multiple jeopardies because of gender, ethnicity, religiosity and country of origin. These findings were corroborated by Dunn et al. (2007) who reported that after 911, various forms of discrimination, verbal abuse, and violence were commonplace for the Australian Muslims.

The evolution of Australian society since 1901, clearly shows how racism changed its nature over time and had impacted the Australian community in diverse ways. Thornton and Luker (2010) reported that in *Australia, the hegemonic powers of whiteness and Anglocentricity have remained defining features of the construction of the nation-state* (1).

Pedersen and Walker (1997) argued that social prejudice and discrimination, both covert and overt (Brown, 2011; Duckitt, 1992) against Australian Indigenous population are major causes of social exclusion and deprivation. Hunter (2000) attributed a high unemployment rate of Indigenous

Australians to be a key trigger of the high crime rate, drinking problems, social exclusion, low productivity, and lack of motivation among this cohort. Institute of Health and Welfare (2015) reported the *indigenous unemployment rate of 21% in 2012* (22) , an increase of 4% from that of 2008 (AIHW, 2013b). A report by the Aboriginal and Torres Strait Islander Commission (ATSIC, 1998) outlined the deprivation, abuses and racial discrimination against the Indigenous Australians since the arrival of the first settlers from Europe, concluding that despite millions of dollars being spent to improve their social and economic conditions, the results were dismal.The ATSIC (1998) report deplored that the past has set a pattern of incursion and dominance. Walter (2014b) reported the racial attitudes are more prevalent *among the male, older and non-tertiary educated* (17) and those *who were brought up under the White Australian policy and a dominantly, Anglo-Celtic immigration programme* (Herscovitch, 2013: 418).

Notwithstanding, the emergence of racism feeding on cultural intolerance is a relatively new phenomenon (FT, 2010). In this instance, minorities are not seen as inferior but are perceived as threats to social and economic interests of the host society i.e. the Anglo-Celtic host. The racial bias, be it for any reason; economic or social, compromises Australian egalitarianism. Sociocultural equality, is, therefore, an important indicator for a just society.

Egalitarian multiculturalism embedding the principle of a “fair go” can only strengthen in an inclusive political environment. Being a liberal democracy, the dominant culture or ethnic group wield more swathe in shaping the nature of a society and its institutions (Lewis, 2013; Donovan and Bowler, 1998). In a multicultural society like Australia, even a covert existence of racism, and race - related social behaviour and attitudes affect job prospects and income opportunities. Therefore, this discourse on sociocultural inequality unveils a lot of underlying factors of income inequality and relatively higher joblessness and poverty among specific segments of the Australian population.

4.4.3 Political Inequality

In a liberal democratic society like Australia, politics derives its legitimacy and mandate from the citizenry. Race and racial discrimination dominated Australian politics since early days. Thus, sociocultural assimilation and integration of people, originating from countries and ethnicities of non-monochromic societies, are driven by social process and conscious political agenda.

Assimilation concerns are primarily *conforming to a set of perceived social norms to be truly Australian* (Glezos et al., 2012: 19). On the one hand, this process has the danger of promoting social exclusion and marginalisation of minority groups (Dunn et al., 2004). Integration, on the other hand, is a commitment of immigrants to be loyal and allegiant to the host country, and accepting its social norms, values, legal and institutional practices (Parekh, 2005). Contemporary political agendas facilitate the process of integration, and attitudes of the dominant culture in the host nation (Berry, 2001) to accept immigrants who arrive with their unique cultural experiences and norms. However, the balancing act of unity in diversity with migrants from about 150 countries (Henry and Kurzak, 2013) is a daunting task. Dunn et al. (2004) expressed the concern that any misplaced articulations from politicians, community leaders, and the media, not only have the potential to ignite mutual acrimony along racial fault lines, but also delay this process of assimilation and integration.

The road to multiculturalism in Australia is still in the making (Argy, 2003; Economist, 2012; Bliss, 2013). Despite the former Prime Minister Gough Whitlam (1972 -1975) adopting multiculturalism in 1973, the discriminatory policy of Australia with its roots in the Immigration Restriction Act of 1901 (Larbalestier, 1999; COA, 1901), and the first Migration Act of 1958 (COA, 1958) seem to underpin the Australian political ethos (Elkin, 1945; London, 1970; Meaney, 2008; Dunn et al., 2004).

Nicholson (2000) deplored that the Australian *Constitution does not prohibit racial discrimination in Australia, but that is not even racially neutral. On the contrary, the view is taken that the Constitution promotes a race-based legal and social system* (211). Similarly, Jupp (2002) took exception to the fact that the *immigration officials were given the discretion to determine whether an immigrant was coloured or not* (15). The white Australia policy also *isolated the indigenous people to reserves under a system of protection and were denied citizenship rights* (Kalantzis, 2000: 101,102).

The Whitlam government removed discriminatory provisions from the immigration legislation through the Racial Discrimination Act 1975, making any form of discrimination based on race and colour unlawful in Australia (Naidoo, 2010; Zacharias and Vakulabharanam, 2009). Babacan and Babacan (2007) viewed this mechanism as egalitarian multiculturalism in which *essential Anglo-institutional frameworks remained unaltered* (27). This act enshrined equality of opportunities for the migrants in the society, offered citizenships to them subject to their accepting Australian way of life, based on Anglo-Saxon values, and English as the official language.

It is noteworthy that the multicultural agenda of Australia is *only encapsulated in policy, and not constitutionally enshrined, making it easy to change* (Babacan and Babacan, 2007: 31). According to Stratton (2012), *since the mid-1970s the political management of Australian population had been managed through the rhetoric and practice associated with multiculturalism* (1). Kirk (2000) observed that absence of any constitutionally entrenched protection against racial discrimination allowed the Commonwealth Parliament to legislate contrary to internationally recognised principles of equality, and insisted that the Racial Discrimination Act 1975 (GOA, 2014a), *is merely an Act of the Commonwealth Parliament which can be overridden and/or repealed by a later Act* (323).

Fair go in Australia is expressed as an equaliser of opportunity irrespective of race, colour, religion, or ethnicity (Herscovitch, 2013). Mateship is a form of social bond among the Australians. Therefore, the role of Government in shaping these values is critical. Divisive politics, harping on racial and ethnic chords are counterproductive in nourishing these values. For example, a person like Pauline Hanson, leader of the One Nation Party, campaigned on racial lines. She was elected to the House of Representatives from a safe seat held formally by the Labor Party in 1996 (Jackman, 1998) defeating the Labor candidate. In 1998, the racially charged electioneering by Pauline Hanson was dismissed by the major Australian political parties as ephemeral, Gibson et al. (2007) argued that *potential for a similar electoral breakthrough by a similar party with populist goals remains undiminished* (838).

The populist goals of Pauline Hansen were race-related opposition to immigration (Money, 1999; Bean, 2000; Goot, 1998), high unemployment and underemployment, and loss of jobs due to relatively skilled migrants arriving from Asian countries (Davis and Stimson, 1998; Moore, 1997; Brett, 1998). In the election in 2016, Pauline Hansen's One Nation party won four seats in the Australian Senate. She is again in the limelight, and this time, she and her party were up against the Muslim immigration. During uncertain economic periods, and in response to local and global events that generate tensions, the temptation for divisive politics along racial fault lines is high. Such politics may thwart political sanity more easily, and victims are mostly ethnic minority groups. At the end of the day, all these translate into economic and social inequities.

4.4.4 Gender Inequality

The discourse on gender inequality in this section is confined to workplace discrimination regarding compensation women receive for their works. Persistent gender inequality not only affects workplace productivity, but it is also one of the leading causes of poverty in households where women are the primary bread earners (Black and Brainerd, 2004; Hegewisch and Hartmann, 2014). Yunus (2007; 2006a) is sensitive about gender issues, positing that economic and social conditions in poor households are more likely to be enhanced, especially when women in those families initiate change.

Yunus (2007) asserted that *women experience hunger and poverty in much more intense ways than they are experienced by men* (40). Despite efforts by governments and international agencies to establish gender parity in socioeconomic spheres (COA, 1984; COA, 1986; OLDP, 2009; UN, 1981; UN, 2014), the evidence suggests that more needs to be done (Young, 2013). The Australian Workplace Gender Equality Agency (2014) reported that as at November 2013, *the national gender pay gap was 18.2%, and it hovered between 15% and 18% during the last two decades* (2). Figure 4.2 shows the gender pay gap in different States and Territories in Australia.

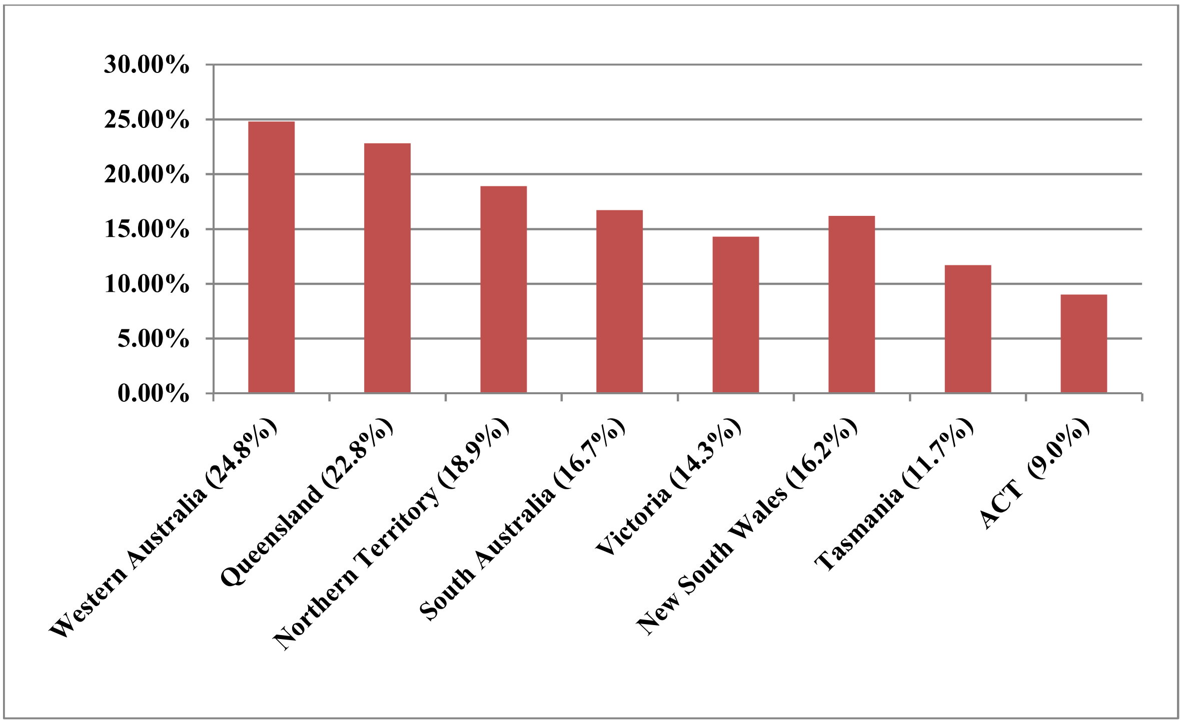

Figure 4.2 Gender Pay Gap in Australia by States and Territories
Source: ABS, WGEA (2014b; 2014).

The nature of industries is one of the main reasons for gender pay variation across the states and territory. The causes of a high gender pay gap in Western Australia and Queensland are attributable to a predominance of construction and mining work. Manufacturing jobs employ more men than women in key positions. The Australian Capital Territory (ACT) has the lowest gender pay gap because the nature of the workforce is mainly in the public administration and safety sectors

There is a relatively higher gender pay gap in the private (21.8%) versus the public sector (12.6%), attributable to the market-driven environment of the private sector as opposed to the politically driven public sector environment (WGEA, 2014).

Reduction in gender inequity is much more complicated than solving other social problems. Policies and legislation need to complement other development efforts focussed on economic growth, employment generation, and measures of poverty-focussed programmes (Stewart, 2010). Therefore, understanding the nature and extent of inequalities across the gender divide, in particular contexts, requires the promulgation of appropriate policies, and enforcement of strategies that ensure results.

Allocation of resources to bridge the gender gap in wealth and income heralds sensitivities and controversies (Moser, 2003). For example, establishing institutional mechanisms for dispensing microcredit, prioritising women, and targeting particular disadvantaged ethnic groups and segments, require robust political will and strategic thinking without antagonising the powerful elites in society. A backbone of sustainable development is gender parity and equal opportunities by overcoming the social and structural causes of inequity (Cassells et al., 2009; Oxfam, 2013b; Oxfam, 2013a; SDSN, 2013).

4.5 Impact of Inequality

Extreme income and wealth inequality among the Australians have resulted in social and financial exclusion for a significant number of people and compromised the ideal of ‘fair go’, an essential part of egalitarian multiculturalism (Azpitarte, 2013b; Connolly, 2014b).

Since income and wealth inequality might result in the concentration of wealth in the hands of a few, it can be a hindrance to policies and regulations for tackling poverty, and counterproductive to the attainment of human rights (Cramer, 2005; SDSN, 2013) or even to the interest of the nation. The Australian Government’s inability to introduce the resource super tax is in 2010 due to resistance by the wealthy mining magnets in Australia, is an instance (Economist, 2012).

Inequality hinders institutional opportunities for fair and inclusive economic growth (Angus, 2001; Kuznets, 1955; McMullen, 2011; Sen, 1981). Extreme forms of inequality lead to social incohesion, and people on low-income become vulnerable to various forms of deprivations (Chambers, 1995; McLachlan et al., 2013).

Sociopolitical inequities translate into a lack of employment, incomes and wealth, and housing, higher mortality, and other health related issues (Stewart, 2010). Inequality results in social exclusion, low productivity, and an inability to develop capabilities (Sen, 1993; Sen, 1999b) for accessing opportunities provided by the state.

A report by the Australian Senate (2014) discussed the impact of inequality.The report revealed measures across a range of studies, since the mid-1980s. The report identified that most recipients of income support, including Newstart allowances, continued to live in poverty. The Senate report (2014) deplored that vulnerable groups below the Henderson Poverty Line (Henderson, 1975a) were in multiple health-related ailments, deprived of quality education, and were devoid of necessary *skills needed to break out of poverty* (xvii).

Stiglitz (2012) argued that high levels of inequality contributed to a less efficient economy, low levels of job generation, and increases in unemployment and societal imbalance in both wealth and welfare. The consequences of inequality, expressed in monetary terms, give an indication of its depth and seriousness. The amount spent each year to support struggling families and individuals through the Australian Government's safety net programme (SNP) is a concrete measure, which in effect, reinforces Stiglitz's (2012; 2014) equation around inequality and its negative consequences on wealth and welfare.

The 2011 Australian Census revealed that of the 85% homeless people who provided information on their job status, 45% were of working age group, 27% were unemployed, and 29% were employed part-time (AIHW, 2013b: 74). Part-time and casual employees constitute about one-third of the labour force; live on an average income as low as AUD 500 a week; and most of them struggle to attain a minimum standard of living (AIHW, 2013a). People in casual or part-time employment are often excluded from mortgage loans, and other forms of loans from mainstream financial service providers exposing them to wider inequality in the event of any downward economic shift.

4.5.1 Deprivation Trap

Chambers (1983) posited the concept of the *deprivation trap* (Chambers, 1983: 112*)* as a way of describing and understanding the nature of poverty and its debilitating impact on the life of an individual. The deprivation trap is, in essence, a perpetuation of the absence of wellbeing (Chambers, 2006; McGregor and Summer, 2010; Tiwari, 2009) or in ill-being (Chambers, 2006; Swanepoel and De Beer, 2007). It is essentially a form of entrapment into the cycle of ill-being. Terming it as a *vicious circle* (111), Chambers (1983) illustrated the process in Figure 4.3, with the resultant impact of isolation, powerlessness, vulnerability, and physical weakness, such that *poverty is a strong determinant of the others* (112).

Thus, in the deprivation trap, poverty is both a cause and an outcome. Chambers (1983) referred to each component in the deprivation trap as a cluster, as can be regarded as a composite cause of deprivation.

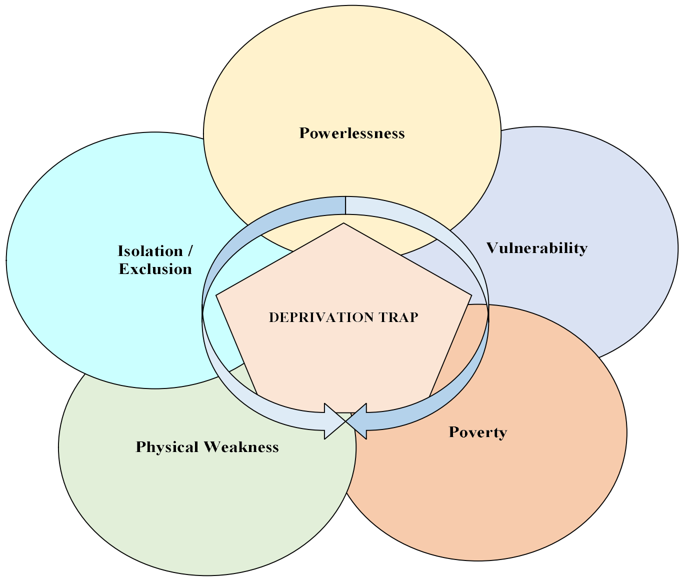

Figure 4.3 Deprivation Trap

Source: Adopted from Chambers (1983:112).

The five clusters in Figure 4.3 create multiple relations that form a negative interlock trapping people into deprivation. The extent of such deprivation depends on the strength of each of the clusters. For example, physical weakness incapacitates an individual to work, lowers productivity, and contributes to deprivation. Similarly, isolation (i.e. remoteness, being out of contact), can result in illiteracy or inability to access facilities like education, healthcare, loans or even initiate economic activity. All these factors, in turn, help to sustain poverty.

While *vulnerability generates poverty* (Barrientos, 2007: 15), it is also the result of isolation, physical weakness, and often forces people to sell productive assets, to borrow at high rates of interest , or live in untenable conditions. Vulnerable people are often powerless, and are easy prey, often exploited owing to having a diminished ability *to negotiate the terms of distress sales and feeble influence on the government to provide services* (Chambers, 1983: 113) addressing their various socioeconomic problems. Azpitarte (2013b) reported that:

> *About one-quarter (n=45 million) of Australians aged above 15 years experienced some level of exclusion in 2011. Of these individuals, about 20% (i.e. 0.9 million) were marginally and 5% (n=0.23 million) were deeply excluded.* (2).

Research by McLachlan et al. (2013), based on responses relating to seven life domains cited by Kostenko et al. (2009), and using Social Exclusion Monitor (SEM), identified different categories of deprivation as shown in Table 4.2. The number and percentages in Table 4.2 are based on ABS (2010) data of 2010.

Table 4.2 Indicative Nature and Extent of Deprivation of Australian Population

Nature of Deprivation	Number of Australians	% of Total Population	Age Group	Remarks
Social Exclusion	4.5 million	25	15+	Includes all marginally excluded to deep exclusion
Multiple Deprivations	2.9 million	17	15+	Main indicator: Lack of affordability to consult a dentist
Income Poor	2.8 million	13	All age	Below 50% median income households

Source: McLachlan et al. (2013: 8).

SEM is a method, jointly developed in 2008 by the Brotherhood of St Laurence (BSL, 2013), and the Melbourne Institute of Applied Economic and Social Research (MIAESR, 2015), to measure the nature and extent of social exclusion in Australia (Azpitarte, 2013a). SEM assigns a value of 0 to 7 to each of the life domains, and a score of 3 and above signifies deep to very deep exclusion. The list can be expanded to include unemployment rates (including part-time and seasonally employed), financially excluded and homeless population.

The nature of deprivation of a significant number of the Australian population as shown in Table 4.2, is analogous to the five clusters comprising the deprivation trap in Figure 4.3. For example, social exclusion falls into isolation/exclusion, vulnerability and powerlessness cluster. Similarly, multiple deprivations are analogous to powerlessness, exclusion, poverty and physical weakness. Income-poor individuals easily fall into all the clusters in the deprivation trap. The point of inference is, each of the different clusters complement and overlap in reinforcing the impact and tightening the grip with the resultant deepening of poverty and inequality into a vicious vortex.

4.6 Where Do the Poor Live in Australia?

The tyranny of distance is often cited as one of the obstacles to development in Australia. With a population density of 3 per square kilometre in a land measuring 7.69 million kilometres, Australia is the 6th largest country in the world but accounts for only 5% of the world's population. The vast distances and relatively small population in Australia have created spatial inequality regarding opportunities for people living in different regional areas that are poorly connected and serviced (Gregory and Hunter, 1995).

Stilwell and Jordan (2007) identified four factors responsible for spatial inequality in Australia. These are housing, employment, education, and infrastructure. According to Saunders and Wong (2014), these factors interact through processes of circular and cumulative causation that are difficult to reverse as spatial inequalities become embedded in the social landscape of the nation. Spatial inequality in employment, health care, and other opportunities is considered to be a natural outcome of the uniqueness of the Australian geography. This situation was aptly described by the former Australian Treasurer Wayne Swan (2005) as a *frayed patchwork quilt* (31), an inference to the geographic profile of poverty (Saunders and Wong, 2014: 132).

It is the driest inhabited continent on the planet with a concentration of its population in two widely coastal regions (i.e. the southeast and east, and the southwest). Of the two areas, the southeast and east are by far the largest in area and population. Most people live in urban centers, particularly in the capital cities (Hugo et al., 2013). The distribution and settlement of Australia's population can be understood from the following summary by Hugo (2012).:

- *A high level of urbanisation - 87% lives in urban areas;*
- *A concentration within capital cities - 64 %;*
- *A strong coastal orientation with 81% living within 50 km of the coast;*
- *An uneven density - 76% of the people lives on 0.33% of the land area with a density of 100 persons or more per square kilometre;*
- *Eight per cent of the population lives on 70.5% the land area at a density of 0.1 persons or less per square kilometre* (75).

Table 4.3 shows an Australian poverty census as at June 2012. This table reveals the population of each State and Territory with the corresponding number of people living below the poverty lines as measured by the 50% and 60% median household income levels. An updated report by Dorsch et al. (2016) on people below the 60% median poverty line showed an increase to an estimated *20% or 4.53 million in two years as at June 2014* (11) from 18% or 4.03 million.

Table 4.3 Poverty Census of Australian Population, June 2012

States and Territories	Population as at June 2012	50% Median Income Poverty	60% Median Income Poverty	Poverty % In State and Territory
New South Wales (NSW)	7,290,300	868,373	1,324,662	33%
Victoria	5,623,500	650,777	1,072,036	27%
Queensland	4,560,100	535,357	803,622	20%
South Australia	1,654,800	156,889	298,762	7%
Western Australia	2,430,300	233,603	370,768	9%
Tasmania	512,000	62,178	106,181	3%
Northern Territory & ACT	609,500	41,320	53,494	1%
Total	**22,680,500**	**2,548,497**	**4,029,525**	**100%**
% of Population	**100%**	**11%**	**18%**	

Source: Saunders, Bradbury and Wong (2014: 30); ABS (2012a).

Once, Aboriginal and Torres Strait Islander people comprised 29% of the population in Northern Territory. The majority (69%) live outside the major urban centers; with one in four living in remote areas (AGD, 2005). The poverty, homelessness, and unemployment rate of 17% make many Aboriginal and Torres Strait Islanders the most vulnerable communities in Australia (AIHW, 2013b).

About 80% of the Australian population live in three states (i.e. 33% in New South Wales, 27% in Victoria, and 20% in Queensland). The concentration of poverty is proportionate to the population in all the States and Territories. A slightly more variation in Northern Territory and ACT is due to the presence of a large number of government employees. The majority of people in poverty live close to large cities and towns. The nature of deprivation and exclusion differs across city dwellers, rural, and semi-urban residents. A high level of urbanisation is attributable to the harsh conditions in dryer parts of the country. Aboriginal and Torres Strait Islanders reside mostly in New South Wales (NSW) and Queensland.

A locational analysis to ascertain the experience of deprivation and social exclusion by Saunders and Wong (2012) reported that prevalence of deprivation was the highest in large towns and rural areas, and the lowest in the inner cities. This study noted that those residing in the countryside were deprived of services, including financial, when compared with their urban counterparts.

McLachlan et al. (2013) complemented the findings of Saunders and Wong (2012) and added that people living in outer regional areas are afflicted with persistent and profound exclusion, and, therefore, experience higher rates of chronic disease and health problems. These remote regions of Australia are characterised by high levels of unemployment and dependency on welfare payments for survival.

4.7 Australian Safety Net Programme (SNP) and its Efficacy

Safety net programme (SNP) is an essential component of Australia's welfare system designed for people who for one reason or another, *are at the risk of missing out the benefits of participating fully in the community and society* (AIHW, 2013a: 2).

Beginning in the 1970s, the Australian welfare state *experienced a crisis as the cost of welfare provision began to skyrocket* (Green, 2002b: 18). The economic boom that Australia experienced over the previous two decades is slowly tapering off (Das, 2013). This decline is impacting on the Government revenue to meet the rising welfare costs (Coorey, 2014; Fowkes, 2011). Recipients are now under increasing scrutiny and more accountable regarding responsibility sharing, prevention of poverty, and to reduce their reliance on income support (Green, 2002c; ACOSS, 2014c). New hurdle requirements (i.e. extended waiting period, working specific hours per week) were introduced for the unemployed and the new job seekers to avail income support payments.

Based solely on income criteria, support payments are made to those Australians who are below specific income thresholds. In the 2014-15 budget about 54% (AUD 79 billion) of total welfare expenditure was related to three key budget categories: income support for people with disability, income support for seniors age pension, and family tax benefits to lower income people. Temporary support to unemployed and sick was about 7% (AUD 10 billion) of the total expenditure during that year.

The category-wise percentage distribution of Australian Welfare Budget of AUD146 billion (about 35% of the Federal Budget) during the 2014-15 financial year is shown in Figure 4.4.

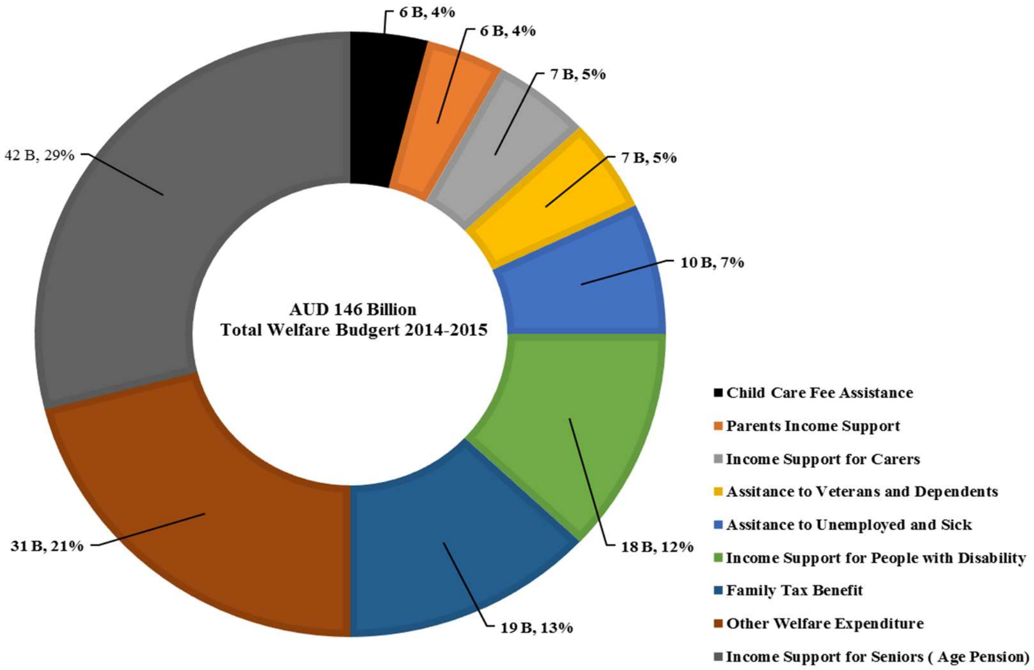

Figure 4.4 Welfare Expenditure in Percentage (2014-15)

Source: Australian Federal Budget (COA, 2014b: 4).

The National Welfare Rights Network reported (NWRN, 2014) that at the *end of December 2013, a total of 0.83 million Australians received Newstart and Youth Allowance* as part of income support payments (6). These figures suggest that a large number of people (i.e. about 3.49 million), who were employed but living on low incomes (part-time and casual working age people) were not included in these estimates because of the stringent criteria of income support payments (ABS, 2014a; ABS, 2015a).

On the issue of wellbeing, the factors beyond income support are considered critical for effective policy intervention. Table 3.1 in the previous chapter summarises this strategy simplistically by linking the various Millennium Development Goals (Tiwari, 2009). Falling short of addressing the non-monetary causes, SNP is a temporary measure based on "doles" and subsidy. It is susceptible to economic downturns, and many believe that the Australian SNP has created an underclass of welfare recipients (Creighton, 2014).

One of the concerns with a well-functioning welfare system is a possible lack of motivation of welfare recipients to engage in self-employment. Creighton (2014) was unequivocal when he stated that:

> *Our welfare system discourages employment and self-reliance while creating a permanent underclass of welfare recipients whose ranks feature prominently in crime statistics. A full-time worker would need to earn almost AUD 60,000 a year to the net after-tax what an unemployed single mother with four children can extract from the welfare system* (1).

However, this scenario portrays only one snapshot and not the entire story evidenced by various submissions (ACOSS, 2014a; Celermajer, 2014; NWRN, 2014) that have urged the Government to increase welfare payments to avert untoward consequences of poverty. A study commissioned by the Department of Social Service, Australian Government (COA, 2014e) reported that:

> *Changes to Australia's income support system over time have resulted in unintended complexities, inconsistencies, and disincentives for some people to work. The system is also out of step with today's labour market realities and community expectations. The income support system is in need of major reform to deliver better outcomes for all Australians now, and into the future* (9).

Similarly, a report by McClure et al. (2014) commissioned and published by the Department of Social Services, observed that the existing system is inadequate to meet community expectations and fell short of meeting *employment and social outcomes* (28).

4.8 Conclusion

The extant literature provides ample evidence that prevailing inequalities are mostly systemic, and can be addressed through proper institutional mechanisms. Despite a degree of restrained rhetoric calling *Australia a prosperous and thriving nation* (COA, 2012c: 1), income inequality and relative poverty are evident (Chenoweth, 2008; Davidson, 2008; Saunders and Tsumori, 2002; Saunders and Adelman, 2005). On the question of absolute poverty, there is a tacit acknowledgment of its presence, but not as widespread as those within some other societies across the world (Harding and Szukalska, 2000). However, without the SNP, many low-income Australians would have quickly descended into absolute poverty under the prevailing circumstances. It is evident from the poverty mapping that the wellbeing of societies does not depend on national income, but on relative incomes among the citizens (Rowlingson, 2011).

Conceptualisation of poverty in Figure 4.1 identifies multiple sources of its causalities. Both monetary and non-monetary causes contribute and exacerbate the intensity and impact of poverty. Ultimately, it is the result of inequality perpetuated and nourished by society. While inequality resulting from gender bias and income disparities is evident, various forms of deprivation emanate from social norms, values, and practices, making the society unfair and inequitable. The presence of racial discrimination (Moran, 2011; Babacan and Babacan, 2007; Dunn et al., 2007) in a multicultural society like Australia is found to be a damaging social phenomenon. It can and does affect employment opportunities (Mahmud, 2013; Marriner, 2014; Limpangog, 2008), and can hinder access to better education and healthcare with the residual effect of social exclusion (Kalantzis, 2000; Dunn et al., 2004) and reducing assimilation in the society (HREOC, 2001).

The persistently high unemployment rate among the Australian indigenous community and non-MES immigrants are the direct results of social discrimination and exclusion. Prevailing racism, in essence, is not based on any race - related superiority; but is more to do with perceived threats to socioeconomic interests of the dominant culture. The four principles for a fair and just society identified by Sowey (2013) to establish equality of opportunities in the seven life domains (Kostenko et al., 2009) fell short in the case of immigrants from non-MES countries, and the Indigenous Australians.

Evidence from multiple sources of extant literature suggests that people living in outer regional areas are prone to exclusions, and mired in a circle of deprivation that Chambers (1983) famously labeled as the *deprivation trap* (112), and live on welfare payments for survival.

The notion of relative equality of poverty as espoused by Esping-Anderson (1990) is, in fact, a tacit acknowledgement of systemic perpetuation of poverty in an economic system where SNP is the key strategy, a state charity, subsidising low-income population (De Regil, 2001; Marcuzzo, 2005) that does not prescribe any pathway to economic integration of the welfare dependants (Harrison and Donelly, 2014). Therefore, the solution to the prevailing inequality, vis a vis poverty, in Australia, needs to be originated from outside the orbit of the present welfare strategy.

The United Nations (2013b) deplored that despite significant gains through various poverty focussed programmes including microfinance, inequality increased due to flawed policies. Fowkes (2011) argued that there is a *need to provide a framework that will encourage people to participate, and which will provide them with real opportunities to work* (13). This participatory approach is captured in the concept of shared value posited by Porter and Kramer (2011) in which broader stakeholders in the society are also the beneficiaries of growth.

A policy option is the creation of self-employment through institutional mechanisms and providing incentives for the youth and the working-age population. In this instance, microenterprise loans dispensed under a well-designed operational framework can have substantial positive impacts (Kar, 2011). Within this context, an investigation of Australian microfinance market, based on the secondary sources of information is reported in Chapter 5. An aim is to determine whether a microfinance social business concept might be appropriate for those Australians identified as being impoverished and financially excluded. The chapter critically assesses the existing nature of the market, its clients, and the potential for its growth and expansion.

Chapter 5 Microfinance and its Nature in Australia

5.1 Introduction

This chapter uses extant literature to critically investigate microfinancing in Australia. Both Yunus (2003) and Sen (1999b) considered that understanding the connection between financial exclusion and poverty, and the relevance of microfinance was crucial within societies and policy mix of governments, and deplored the lack of opportunities for people remaining impoverished and deprived.

Recognising the efficacy of microfinance as a financial inclusion tool, the Australian Government established the Community Development Finance Pilot (CDFP) in 2009 (Plant & Warth, 2013) and founded the Social Enterprise Development and Investment Fund (SEDIF) in 2010 (COA, 2011). These schemes explored and experimented with fair and affordable financial services for low-income Australians. An evaluation of Community Development Financial Institutions (CDFI) by Plant and Warth (2013) critically explored the growing microfinance sector in Australia. The findings in the evaluation recorded positive social and economic impact on the lives of financially excluded people. However, the institutional viability of the CDFIs was found to be challenging by the researchers (Plant and Warth, 2013).

The ideological debate around fairness, affordability, and the best way to provide financial services to the poor are expressed through adopting a welfarist approach to microfinancing (Bisen et al., 2012; Paris, 2013; Morduch, 2000) in Australia. This approach neither provides long-term solution to financial exclusion nor establishes self-sustainable institutional mechanisms to deliver financial services to the poor. Therefore, the critical challenge identified is the lack financial viability of microfinance organisations for their growth and sustenance (Burkett, 2013; Burkett and Drew, 2008; Burkett and Sheehan, 2009; IRD, 2009).

The poverty and inequality mapping exercise (i.e. Research Objective 1, to map the poverty and inequality contour and its nature in Australia) in Chapter 4 provided the background information to identify opportunities for credit and financial services to financially excluded Australians (i.e. Research Objective 2). The review of the extant literature in the following sections investigates microfinance market size, its depth, and potential demand for such a programme. These two investigations i.e. poverty and inequality mapping; and microfinancing in Australia provide essential information to answering the Research Question 1 (i.e. is there a market for viable microfinance operations in Australia?), and Research Question 2 (i.e. what is the potential size and dispersion of this market?).

Since the issue of viability is intrinsically linked to the size of the market, it is imperative that this issue is discussed here. Although there is no available data on this issue, the information generated from the poverty and inequality mapping exercise in the previous chapter was used to measure market size, its depth, and the potential demand, and presents a compelling data. For example, a relatively large proportion of people, as high as *20.1%,* lived *below the 60% median poverty line in 2014* (Dorsch et al., 2016:11). This segment of the Australian population constitutes unemployed and people on low incomes who are mainly in part-time and casual employment. The majority of these people are unable to access loans or credit facilities for failure to meet collateral or mortgage requirements under the existing prudential regulations. Information on poverty and exclusion collated from a range of diverse sources, not only corroborated this estimate but also indicated a potential demand and market size under verifiable assumptions, as detailed in Tables 5.2 and 5.3.

From Sections 5.2 to 5.7, critical reviews from the extant literature were conducted on financial exclusion and its connection to poverty, microfinance as a financial inclusion tool, and ideological debates around nature of microfinancing in Australia. The sections also investigated the microfinance market size including the major organisations dispensing microloans, their nature, and motivations. An in-depth investigation of the legal and regulatory environments in which microfinance organisations operate in Australia was also undertaken. The analysis based on multiple sources of extant literature was useful as input for Study 1 in Chapter 7 to assess the viability of microfinance social business in Australia.

5.2 Financial Exclusion and Poverty

Financial exclusion in any country or a region is inextricably linked with deprivation, inequality and socioeconomic exclusion that may take many forms (Gloukoviezoff, 2006). Poverty encapsulates the various forms of deprivation and its depth. Therefore, its manifestation and impact vary from countries to countries.

Yunus (1983) considered poverty to be one of the fallouts of financial exclusion and posited that:

> *If the control over the financial resources can be loosened, the poor can at the very least begin to enjoy some fruits of their labour, begin to expand their economic base, live with dignity and look forward to build better lives for themselves* (7).

The term financial exclusion refers to *an individual's lack of access to appropriate and affordable financial services and products* (Connolly, 2014b: 5) from the mainstream financial system that includes banks, building societies and credit unions, insurance companies, and specialised financial agencies.

The nature and complexities of financial exclusion and their contextual relevance are amply captured by the following definition of European Commission (2008):

> *Financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society to which they belong* (9).

Kempson and Whyley (1999) outlined a number of perspectives defining the nature and causes of financial exclusion. These are illustrated as follows:

1) Access exclusion: Restriction using risk assessment criteria. Depends on a company's policy to avoid certain activities or categories. This may even extend to gender, location or experience, among others.
2) Condition exclusion: Conditions attached to the eligibility criteria are restrictive for the applicants. It is an easy way to deny financial services or loans to the poor for failing to provide collateral or even in many instances; women are denied loans or even banking services for failure to get male family members to second the applications.
3) Price exclusion: In this case, prices are prohibitive for a particular category of customers.
4) Market exclusion: Specific types of customers are denied services by way of segmentation of the market. It may be based on gender, age, location, and income, and,
5) Self-exclusion: In this instance, customers voluntarily abstain from approaching any financial services provider, either for fear of being refused or the system or processes are too unfriendly for them to be comfortable in the current form.

The providers of credit and financial services use one or more exclusion criteria, mentioned above, as part of their business strategy. Of the five categories of exclusion, the first four can easily be avoided with appropriate and supportive institutional mechanisms. The conventional collateral-based banking system automatically weeds out the asset-less or income-poor customers from their eligibility criteria of lending. These exclusions affect people on low incomes as products and processes that financial institutions have adopted for themselves are unfriendly to the poor. Yunus (2006a) termed this systemic failure as *financial apartheid* (1).

There is a difference between accesses to financial system with that of access to credit from the mainstream market. This means, one may have a transaction account (i.e. have access to the financial system), but not necessarily be eligible to borrow (i.e. lack of access to credit) as conditions to borrowing may require criteria that a person with income below a certain level fails to comply with (Wilson, 2012b). Those without the access to credit or loan, are likely to turn to friends or relatives, and as a last recourse, to fringe markets of unregulated money lenders to meet their budget shortfalls or essential needs (Kempson et al., 2000: 42; Saunders and Adelman, 2005). In this instance, despite the high cost of loans (i.e. price exclusion), the desperation compels many people, especially the poor, to borrow at unfriendly terms.

Carbó et al. (2005) found empirical evidence of exacerbation of poverty and hindrance to the accumulation of capital resources due to financial exclusion. A number of reports including ANZ (2004b), Chris (2013), and Hems et al. (2013) concluded that financial exclusion often pushes a person into insecurity, low income, and vulnerability to fringe lenders. When people on low incomes lose their jobs, they are more likely to be induced into the *deprivation trap* (Chambers, 1983:112), thus experiencing the vicious downward spiral of poverty.

Yunus (1991) considered *credit to be a human right* (12) and views it as an entitlement to resources. The denial of the right to credit frequently exacerbates a person's vulnerability and contributes to income inequality, poverty, and social exclusion (Devicienti and Poggi, 2007; Fløtten, 2006).

Evidence suggests that financial exclusion is not the result of socioeconomic and demographic factors alone. Chaia et al. (2009) reported:

> *We found considerable variance among countries when we correlated financial services usage with national levels of per capita income and urbanization for each country. The*

variation in the data suggests that socioeconomic and demographic factors are not the only drivers of financial inclusion. Regulatory and policy environments, as well as the actions of individual financial services providers, shape the financial inclusion landscape and are, to a large extent, independent of countries' socioeconomic and demographic characteristics (1,2).

5.3 Microfinance as a Financial Inclusion Tool

The financial sector in an economy manages resources and their deployment through well-regulated institutional mechanisms like banks, insurance companies, credit unions, and various forms of intermediaries. The principles underlying an efficient financial system are to promote competition, maintaining market integrity, attracting investments, facilitating trade and commerce with the aim of improving the overall economic performance (Singh and Yadav, 2012; Merton, 1990).

The emergence of microfinance as a financial inclusion tool is the result of indifference or failure of the formal financial system to serve needs of poor households and microbusinesses. Denying the opportunity to access resources (i.e. loans and various forms of financial services) from the formal financial system cuts them off from the economic lifeline. In the absence of appropriate institutional arrangements, the income-poor often resort to borrowing from fringe lenders to tide over hard times at terms and conditions that are often exploitative and unfriendly (Banks et al., 2012; ITL, 2008).

While financial inclusion is the common agenda for all microfinance organisations, their modus operandi varies depending on nature of their incorporation (i.e. charity, not for profit or community organisations) and ethical underpinning. Gulli (1998) and Zeller (1999) characterised microfinance into two broad categories: poverty lending approach and financial systems approach. Both approaches reported positive social and economic impacts.

Poverty lending approach focusses on poverty alleviation and is indifferent to financial viability, and or institutional sustainability (Moll, 2005; Robinson, 2001). In poverty lending approach, consumer loans are very common. These loans are for *income and consumption smoothening* (Zeller, 1999: 5,6) during hard times. Poverty lending approach, also termed as a welfarist approach, relies on soft loans and grants to sustain. Australian microfinancing falls into the poverty lending approach.

In the financial systems approach, also called the institutionist approach (Morduch, 2000), microfinance is used as an income generating tool to support entrepreneurial poor who engage in micro to small businesses (Kyereboah-Coleman, 2007; Zeller and Sharma, 2002). The financial systems or institutionist approach aims for self-sustainable operation as a microfinance organisation (MFO). The GB model is a combination of both poverty lending, and financial systems approaches from the perspective of its overall objectives and impact.

5.4 Ideological Debate in Australia

The moral dilemma in Australia where service to the poor is viewed as part of charity to alleviate sufferings has led to the conviction that microfinancing in Australia for its growth and sustenance would need to rely on voluntary initiatives and Corporate Social Responsibility (CSR). This perception can partially be explained through the lens of institutional theory (Scott, 2009) which posits that cultural-cognitive and normative aspects of a society form the foundation of value and morality in a given society.

In Australia, the Christian virtue of charity and empathy have largely influenced the societal response to the disadvantaged communities. However, any society is intrinsically dynamic and changes over time. According to Gerogre and Uyanga (2014), *societies change from simple traditional societies to complex modern societies; people, values, trends, and activities also change* (41).

Being a modern multicultural society, Australia has its unique challenges and opportunities. Social, demographic and ecological changes coupled with shrinking opportunities in the traditional modes of production, have impacted productivity and expectations. It generated the need for technological innovation to create opportunities for citizens in the new economic realities (COA, 2011; Eckersley, 1999; Edwards et al., 2009).

Additionally, the budget pressure to accommodate various emerging national priorities resulted in reshuffling, and even closing various government agencies including the reduction of funding by the Federal and the State Governments to government and non-governmental organisations engaged in various types of service delivery to communities (COA, 2014c). Therefore, it is imperative that innovative solutions be developed to reduce the dependency of microfinance organisations (MFO) on grant funding. This will be difficult to pursue in the short term as a sudden reduction in grants and soft loans to community organisations may affect existing programmes.

Moreover, the perceptible distrust between non-governmental organisations and profit-driven operations regarding service delivery strategy to vulnerable communities (Moody-Stuart, 2006), makes it difficult to chart out a business-focus approach. There is a perception that any design, having an element of accruing profits, may quickly compromise the key social purpose of benefitting the poor (Landsberg, 2004; Young, 2002). Friedman's (1962) view on the purpose of business being the maximisation of profit, has shaped the corporate strategies of the major banks like ANZ, Westpac, and NAB in the financial inclusion space in Australia.

The ethical foundation of Australian MFOs hinges on humanitarian principles to assist the financially disadvantaged clients. Therefore, operational procedures and staff training of MFOs are organised around these principles. In most cases, loan repayments are secured by tie-up arrangements with Centrelink to suppliers of goods or services. Since the design is non-business-like; the Australian MFOs provide loans for mostly consumption purposes to alleviate a temporary shortage of money to pay for essential goods and services. While the need for consumer loans will always be there (IRD, 2009; SPP, 2014), without a sustainable solution to service their needs, the programmes may face natural death for the dearth of free money.

This ideological stand is firmly grounded against the business-focus approach that proposes specific organisational structures and reliance on self-employment for the microborrowers. Burkett and Sheehan (2009) opposed the idea on the premise *that they may not necessarily serve the goals of addressing the financial exclusion in Australia's context* (8). This mission-drift is conceivable when any MFO tries to move quickly to profitable operation by charging prohibitive interest rates or bypass the non-entrepreneurial poor, compromising the welfare component of the programme for profitability (Woller et al., 1999).

Woller et al. (1999) argued that the debate on the sustainability of microfinance gravitated the proponents to either one of the two ideological positions: welfarist (or poverty lending) versus institutionist (or financial systems) perspectives. Here the welfarists propose to finance any poor, irrespective of the purpose (i.e. consumption or microenterprise) of loans. On the other hand, the institutionists are more on to the entrepreneurial poor. There is less emphasis on the financial sustainability by the welfarists who consider microfinance as simply another developmental tool to achieve broad-based social development agenda like various humanitarian programmes seeking socioeconomic outcomes (Moon, 2009).

This debate between the welfarist approach and the institutionist approach is termed as the microfinance schism by Jonathan Morduch (2000). Institutionists argue that the primary objectives of microfinance are to create self-sustaining microfinance organisations that can provide high-quality financial services to the poor and missing-middle. Welfarists, on the other hand, advocate, and work for microfinance availability to ease off immediate financial hardship of the poor. To achieve these, welfarists advocate subsidising both loans and organisations (Babacan and Babacan, 2007)

The institutionist's position is articulated virtually in every literature coming out of Ohio State University Rural Finance Programme, the World Bank, and the Consultative Group to Assist the Poorest (CGAP), and the United States Agency for International Development USAID (Woller et al., 1999). Critics of institutionist approach argue that, since it is based on commercial design, it may quickly turn into a profit making enterprise compromising social outcomes as may be seen in India in 2010 (Mader, 2013). Two of the leading examples of commercial microfinance with profit maximisation at the core of their operations are, SKS Microfinance Ltd. in India (SKS, 2013) and Compartamos Banco in Mexico (Rhyne and Guimon, 2007). The ideological conundrum in Australia is illustrated in Figure 5.1.

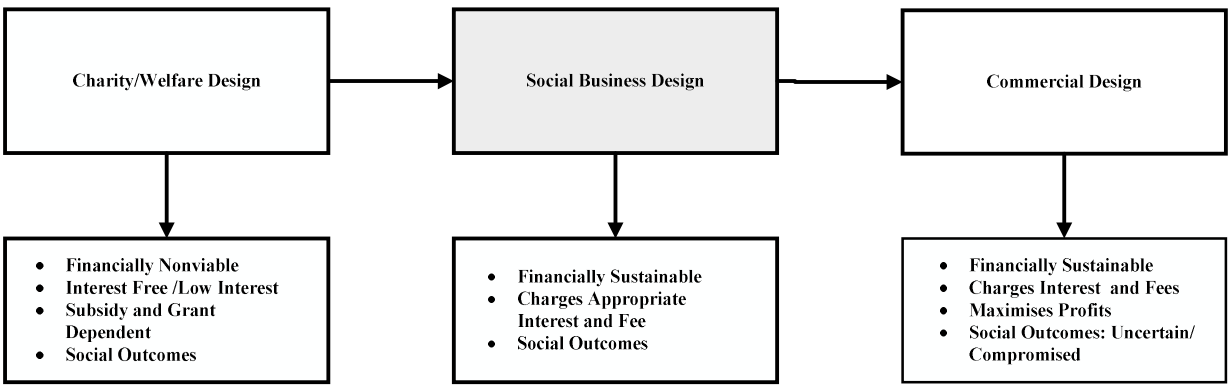

Figure 5.1 The Ideological Conundrum in Microfinance Designs

This debate between welfarists versus institutionists, termed as hard-nosed (the commercial approach) and soft-hearted (charity/welfare approach) arguments of the two extreme views is defined as a continuum as illustrated in Figure 5.2. The continuum captures the range and complexities of the nature of organisations engaged in microfinancing in Australia (Burkett and Sheehan, 2009).

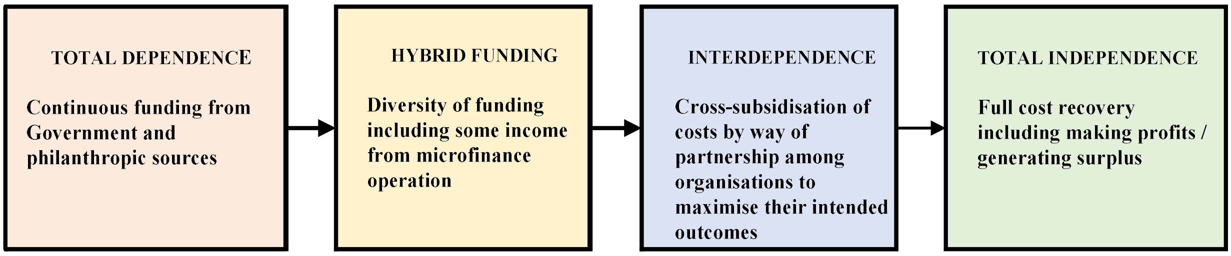

Figure 5.2 Microfinance Continuum

Source: Adopted from Burkett & Sheehan (2009: 12).

Organisations with total dependency on the Government and philanthropic sources fall in the first category in this continuum, followed by the hybrid model (grant plus earned income), interdependence (cross-subsidisation i.e. partnership between organisations to maximise their intended outcomes) to full financial sustainability. Table 5.1 categorises the Australian microfinance organisations into the above four slabs of the continuum. Three of the credit unions listed here (i.e. Fitzroy and Carlton Cooperative, Traditional Credit Union and First Nations Credit Union) were set up by people on low incomes or disadvantaged communities. One of them has already merged with Bank Australia. Except for Traditional Credit Union, an ADI (Authorised Deposit Taking Institutions), none of the MFOs were meeting their operating costs nor were generating a surplus.

Table 5.1 Examples of Microfinance Organisations along a Continuum of Viability

Total Dependence	Hybrid Funding	Interdependence	Total Independence
• NILS Programme of Good Shepherd Microfinance • SaverPlus • Mercy Lending Services • Tasmanian Small Business Microcredit	• Fair Finance Australia • NAB Microfinance Loans • Community Sector Banking • StepUp Loan Programme	• Manyrivers Microfinance Ltd • Progress Loans • First Nations Credit Union • Fair Loans Foundation • Foresters Community Finance Ltd	• Traditional Credit Union • Fitzroy and Carlton Credit Cooperative (now merged with Bank Australia)

This debate on financial viability and social outcomes of the Australian MFOs is reflected in most of the studies in Australia, which genuinely searched for solutions to the problem of dependency of MFOs for their on-going operation (IRD, 2009; Plant and Warth, 2013). The design elements of a social business incorporating the best value principles adaptable in different cultural and economic contexts are not factored into any of the available literature in Australia.

The concepts and methodology on which a microfinance social business is modelled *reverses the profit maximization principle with benefits maximization principle* (Yunus, 2006c: 6*)*. Since, self-sustainable operation with specific social and economic outcomes is the way forward, some MFOs have adopted specific features in their operational design to reduce their dependency on donor funds. Organisations like Manyrivers Opportunity (Manyrivers, 2012), Community Sector Banking (Plant and Warth, 2013) and Foresters Community Finance (Foresters, 2012) incorporated microenterprise financing portfolio in their lending programmes charging commercial interest rates.

Yunus (1994) argued that credit, or for that matter, financial services to the poor, need not be subsidised at the cost of the non-poor segments of the society. *Poor should be competing for credit with the farmers, traders, exporters, and industrialists on equal footing* (Yunus, 1983: 13). The premise of this assertion is that permanent, self-sustaining institutional arrangements are essential to creating opportunities for the poor to access credit and financial services and not temporary support to tide over hardships.

Yunus (1994) pointed out that the:

> *The conventional banking system is designed for the rich and needs to be either redesigned or separate banks be created that the poor or financially disadvantaged people have access to, for their financial needs* (10).

5.5 Microfinance Market Size

There is hardly any organised data available on the potential size and dispersion of microfinance market in Australia. In this study, the microfinance market size has been estimated with indicators like the percentage of financially excluded population, casual and part-time employees, people in poverty as per the median income criteria, people on low-incomes and number of people borrowing from fringe lending markets.

Extant literature from multiple sources overwhelmingly reports that number of people who are financially excluded have grown over the years, and may continue to grow (Connolly et al., 2012; Dale et al., 2012; QCOSS, 2012; WACOSS, 2011). A study commissioned by the National Australia Bank, and led by Connolly (2014b) estimated about 16.9% or 3.04 million of the adult population in Australia were being deprived of the mainstream financial services. In real terms, *181,000 adults were fully excluded, and 2,859,000 were severely excluded from access to financial services* (5). A research report by the Institute for Regional Development (2009) concluded that self-employment and microenterprise are significant and growing features of the Australian economy, and deplored that *women continue to be dramatically underrepresented among business owners* (27). In most of the developing countries including Bangladesh, women micro-entrepreneurs outperform their male counterparts in micromanaging their small businesses with excellent repayment performance and contributing to family welfare more effectively (IFC, 2014; Mainsah et al., 2004). The Australian experience is no different (Corrie, 2011). The report (IRD, 2009) also concluded that microcredit for an enterprise is a largely underdeveloped sector in Australia.

Wilson (2004) reported that the thriving payday loans and other forms of lending at usurious rates point to the desperation of people to borrow. The inability of the poor to access financial services from mainstream financial institutions have spawned the growth of fringe lending market like pawn shops, and all forms of short term usurious lending with an *estimated market size of about AUD 800 million* (Banks et al., 2012: 1; Infosys, 2008; Rolfe and Lentini, 2011).

Based on ABS Census Data of 2006, a potential microfinance market size was estimated by the Institute for Regional Development (IRD) by classifying the clients based on their gender and age groups. The findings of IRD are summarised in Table 5.2.

Table 5.2 Potential Microfinance Market in Australia based on Gender and Age Groups

Category of Clients	Estimated Number	Remarks
Low-income individuals	6.5 million	Includes both genders.
Low-income women	4 million	62% of the total low-income Individuals.
Low-income women aged 15- 64, not in paid employment	1.8 million	Mostly women from poor households.
Potential entrepreneurs estimated at 45% ref SL 3	810,000	Not able to find employment; self-employment is a potential way to participate in economic life.

Source: (IRD, 2009: 32,33).

Another study by the Strategic Project Partners (2014) estimated that about *3.1 million adult population were financially excluded* (6). Most of the part-time and casual workers estimated at 3.49 million (ABS, 2014a) constiture a significant percentage of the low-inocme Australians. A summary of the findings from various sources on the size of microfinance market in Australia is furnished in Table 5.3.

Table 5.3 Estimated Size of Microfinance Market in Australia

Source	Number of People	Total Market Size (In AUD)	Remarks
Measuring Financial Exclusion in Australia (Connolly, 2014b: 5; Connolly et al., 2012: 8,12)	3.04 million (16.9% adult Australians in 2013) were financially excluded. The exclusion criteria by mainstream financial institutions: Non-fulfilment of loan conditions.	11.4 billion (Average Loan Size assumed at 5,000).	The estimate is based on an average loan size for 75% of the estimated number. Loan sizes range from AUD 2,500 to AUD10,000 per head.
Australia's unemployment rate in May 2014 (ABS, 2014a)	3.49 million (Casual and part-time employees or 30.23% of the total labour force)	26.18 billion (Average Loan Size assumed at 10,000).	Loan sizes from AUD 5, 000 – 15,000 loan 75% of the estimated number of people. Assumed 25% is having access to credit cards or some form of finance from the mainstream financial market. Various micro-loan products based on the market segmentation relevant to their jobs, income and professional skills, may be developed.
Microfinance, Inclusion, and Economic Growth (SPP, 2014: 6)	3.1 million people financially excluded The exclusion criteria by mainstream financial institutions: Non-fulfilment of loan conditions.	7.50 billion (Average Loan Size assumed at 5,000).	Assumed 75% of the estimated number to avail the service. Loan sizes ranging from AUD 2500 to AUD10,000 per head.
Poverty in Australia (Davidson, 2012: 8)	3.71 million people in poverty: Based on 60% median income during 2008-2009	9.3 billon (Average Loan Size assumed at 5,000).	Assumed 50% of the estimated number to avail the service. Loan sizes ranging from AUD 2500 to AUD10,000 per head.
Poverty in Australia 2014 (Saunders et al., 2014: 30)	4.03 million people in poverty: Based on 60% median income criterion during 2011-2012 (includes all age group)	10 billion (Average loan size assumed at 5000)	Assumed 40% of the estimated number. Loan sizes ranging from AUD 2500 to 10,000 per head. The information is based on ABS data of June 2012.
Caught Short Exploring the role of small, short-term loans in the lives of Australians (Banks et al., 2012: vii & 1)	2 million people: Borrowing from the fringe markets at exorbitant interest rates.	800 million (Average Loan Size assumed at 400).	Payday lenders: 54% borrowed less than AUD300; 75% borrowed less than AUD 500. About 80% participants received Centrelink support.

Source	Number of People	Total Market Size (In AUD)	Remarks
Fringe Lending in Australia – An Overview (Infosys, 2008: 6,9) Consumer Credit Regulation and Rights-based Social Justice (Wilson, 2012a: 510)	The number is difficult to measure due to the extreme range of loan sizes.	800 million and growing rapidly. Annual loan transactions stand at about 10 billion (Average Loan Sizes range from 50 to 500 plus).	Major Fringe Lenders: Cash Converters, Amazing Loans, Fast Access Finance, Money Plus, Cash Plus, Q Loans, Cash Doctors, Cash Stop, City Finance.

The number of people in various forms of disadvantages (i.e. financially excluded, part-time, casual employed, people borrowing from fringe lenders, and people in relative poverty) shown in the Table 5.3 was estimated by different authors in different times on unrelated purposes from each other. The information in the table gives an overarching picture of the potential microfinance market size both regarding the number of target clientele and approximate dollar amounts. However, the proposition of the above estimates is based on the premise that microfinance products will be used mostly for income generating purposes by borrowers under properly designed microfinance social business. One loan per person, per year, is assumed in arriving at the total market size. However, a microfinance client normally borrows more than one loan in a given year /period depending on the nature of loan products she/he avails. Therefore, the per head loan amount can be larger than is estimated here. The average per head loan amount for a borrower in Grameen Bank (GB) in Bangladesh in July 2014 was equivalent to about AUD 350[1]. In Grameen America (GA) in the USA, the average per head loan amount at the end of June 2014 was about USD 5,300[2].

In estimating microfinance market size, the casual and low paid employees constituted potential clients for microfinance loans. Many of them are financially excluded in Australia. The instance of Zambia is in hand. Low paid employees in Zambia, from both public and private services, constitute a significant market for microfinance organisations. Suitable financial products were developed to serve their financial needs (Moyo, 2009).

It is to be noted that the actual size of the market for microenterprise loans depends on the programme design, targeting strategy, nature of target clientele, criteria of microloans and nature of loans (i.e. consumer finance, microenterprise loans, loans for unserved and underserved missing-middle entrepreneurs), and a range of sociocultural factors including the regulatory support. Assuming an average per head loan of AUD 5000 for 50% of low-income Australians (see Table 5.2), the potential microfinance market size can be as big as AUD16 billion. This figure complements the information collated in Table 5.3. *A large number of immigrants from Asia, Africa, and the Middle East find it extremely difficult to get employment* (Ramsay et al., 2008:116),

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[1] Information obtained from the Monitoring and Evaluation Department of Grameen Bank.

[2] Obtained through email correspondence with the CEO Operation, Grameen America.

and or financial support to initiate self-employment. The discrimination of the Aboriginal Australians and migrants from non-MES countries worsened the situation of income, and unemployment (Limpangog, 2008) Many of them have skills to engage in self-employment with small amounts of loans under appropriate programme design.

Considering the purchasing power parity (PPP), the equivalent average per head loan of a borrower from Grameen America in Australian currency as on 30 June 2014, was about AUD 5,639. The formula to compute the equivalent loan size is, $\mathrm{Els} = \frac{\mathrm{Alc}}{\mathrm{Cfx}} \mathrm{x(Lfx)}$. Here, Els is equivalent loan size, Alc is the Australian dollar, or the local currency (i.e. AUD 1.064) against Cfx i.e. corresponding foreign exchange (i.e. USD 1). Lfx is the loan in foreign exchange, in this instance, the average per head loan size of USD 5,300.

This equivalence comparison is very simplistic, as it does not consider factors like inflation and costs associated with economic policies, regulations and other associated living indices that influence the cost of living and doing business in specific countries. The formula can be expanded by incorporating the prices of a basket of goods in each of the countries i.e. Australia, Bangladesh, and the USA. The PPP concept is based on the law of one price that assumes that:

> *Any good that is traded on world markets will sell for the same price in every country engaged in trade, when prices are expressed in a common currency* (Pakko and Patricia, 2003: 1).

The per-head loan amount in Bangladesh compared to that of USA appears to be relatively small. However, the real purchasing power, considering prices of goods and services in Bangladesh, is more than the actual unit expressed in Australian Dollar. A simple example may be given by comparing taxi fares in Dhaka and Melbourne. A 10-hour private taxi ride in Dhaka would cost about AUD 55 to 70[3], whereas, in Australia, it would cost about AUD 1000[4] or more depending on the mileage traveled during that time or counting the hours for which the service would be availed. Therefore, the PPP between the two countries needs to be multiplied by the ratio of a bundle of services or goods in two countries to determine the equivalent price or cost of particular

[3] https://www.chalo.com.bd/

[4] https://www.taxifare.com.au/

goods and services in a given period. Considering this measure, the loan size assumed to determine the microfinance market size in Australia, is not an overestimation.

There may be reasons to question the percentage of people who might participate in the programme. A sensitivity analysis might be useful to resolve this apprehension. However, the actual size of the market for microenterprise loans will depend on the programme design, targeting strategy and a range of sociocultural factors including the regulatory support.

5.5.1 Missing Middle

Microfinancing in Australia is still in its infancy; struggling to define its approach and policy outlines. In estimating the market for microfinance, it might be pertinent to explore the unserved market of the missing- middle, a segment largely ignored by providers of microloan operations (Ody and Ferranti, 2007). This is the top end of microfinance market and is also avoided by conventional financial institutions for being not profitable due to small loan sizes and non-compliance to mortgage requirement. Though the criteria for determining the cut-off ceiling among micro, small and medium enterprises vary widely, it nevertheless warrants serious policy consideration to organising appropriate financial access to develop this market in Australia. Table 5.4 provides an indication of various categories of financing range including micro-loans.

Table 5.4 Definition of Micro, Small, and Medium Enterprises

Category of Loans	Manufacturing (In USD)	Service (In USD)	Comments
Micro	Up to 45,500	Up to 18,200	Working Capital (WC) is not included in any of the categories. The addition of WC will increase the per head loan.
Small	45,500 - 909,100	18,200 - 363,600	
Medium	909,100 - 1,818,200	363,600 - 909,100	

Source: International Finance Corporation (2014: 12).

Organisations like Bank Australia, Malney and District Community Credit Union, Manyrivers Opportunity, NAB Microfinance Loans in Table 5.5 have touched a bit in the missing-middle space. Moyo (2009), Sale (2010) and Mazzarol (2012) argued that there is a large unserved missing-middle who need financial support to be connected to the economic value chains through enterprise loans. In developed countries, in addition to microenterprise loans, relatively bigger loans can expand market potential of microfinance social business serving both ends of the microfinance spectrum.

In Australia, microfinance organisations are still scratching the bottom, giving micro-loans for mostly consumption purposes. By recommending to include the upper spectrum of microfinance market, the bottom half is not to be ignored.

5.6 Microfinance Organisations (MFO)

In Australia, microfinance products range from interest-free personal loans, matched savings schemes and micro-enterprise loans at varying interest rates (ANZ, 2004a; ANZ, 2004b; ANZ, 2004c; Burkett, 2011; Burkett, 2013; Burkett and Sheehan, 2009; Plant and Warth, 2013). MFOs in Australia can be listed into four broad categories. These are:

1) A company limited by guarantee and incorporated under Corporations Act 2001 as a not for profit entity (i.e. a benevolent or a charitable organisation);
2) An unincorporated entity;
3) Credit union; and
4) A hybrid model like Community Sector Banking (CSB), a for-profit company registered under Corporations Act 2001 to provide banking services to the community of organisations and their employees (CSB, 2012).

Section 5.7 (Legal and Regulatory Environment) discusses the Australian legal and regulatory environments within which the MFOs listed in Table 5.5, operate. Other than the credit unions, rest of the organisations are deductible tax recipients (DGR) granted by the Australian Taxation Office (ATO). Credit Unions are Authorised Deposit Taking Institutions (ADI) (see Table 5.7) under the regulation of Australian Prudential Regulation Authority (APRA) and are subjected to more compliance stringencies compared to not-for- profit charity and benevolent MFOs. The licensing and regulatory supervisions for the not-for-profit charity and benevolent MFOs are under the jurisdiction of Privacy Act 1998, ASIC 1991, Corporations Act 2001, NCCP Act 2009, CC Act 2010, ACNC Act 2012, ACNC Regulations 2013 and Charities Act 2013. The functions of the regulatory agencies and implications of various acts and regulations are briefly illustrated in Table 5.6.

Table 5.5 Leading Microfinance Providers in Australia

Organisation, Clients, and Nature	Product and Loan Amount/Size	Interest or Service Charge	Funding Source and Remarks
Brotherhood of St Laurence and ANZ Clients: People on a low income. Nature: Not-for-profit charitable organisation.	Progress Loans (Personal Credit). Loan Amount: AUD 5, 00 - 3,000.	Interest: 13.89% per annum	Funding Source: ANZ Operating since 2006; Viability: Not viable
Brotherhood of St Laurence and ANZ. Clients: People on a low income. Nature: Not-for-profit charitable organisation.	Saver Plus - financial literacy and matched savings.	Matched Savings and no interest are charged	Funding Source: Australian Govt, The Smith Family and Berry St, and The Benevolent Society. Viability: Not viable.
Community Sector Banking (CSB) Clients: Aboriginals, Torres State Islander and people on a low income Nature: For-profit company; operates with the license of Bendigo Bank.	Loans are given for all purpose including personal and household expenses. Loan Amount: AUD 2,000 – 3,000.	Interest: 13.95% per annum Application Fee: AUD50	Funding Source: Bendigo and Adelaide Bank; Commonwealth Govt (FaHCSIA). Operating since 2002 Loan operations are carried out by partner NGOs. Viability: Information not available.
First Nations Australian Credit Union (FNACU) and First Nations Foundation (FNF) Clients: Aboriginals and Torres State Islanders Nature: FNACU: Authorised Deposit Taking Institution (ADI). FNF: Not -for-profit charitable organisation.	Savings, personal credit, payments, insurance. Loan Amount: Not available.	Charges interest and fees; data were not available	Funding Source: Australian National Credit Union; Seed funding from Aboriginal and Torres Strait Islander Commission (ATSIC). FNACU: Operating since 1999. FNF: Operating since 2006. Viability: Stated to cover its operational costs (Burkett. & Sheehan., 2009); no clear evidence available.

Organisation, Clients, and Nature	Product and Loan Amount/Size	Interest or Service Charge	Funding Source and Remarks
Fitzroy and Carlton Community Credit Cooperative Clients: Cooperative members (75% of its members were on Centrelink payment). Nature: An ADI; for-profit organisation	Savings, loans, credit advocacy, budgeting services. Loan Amount: Not available.	Loans available to the members only. Charges interest and fees; data was not available.	Funding Source: Members savings; initially supported by Brotherhood St Laurence. Operating since 1977.The Cooperative was merged with Bank Australia in June 2013, and continues to operate as a window within Bank Mecu. Bank Australia has changed its name to Bank Australia on 17 August 2015. Henceforth, the name Bank Australia is used in in this thesis.
Foresters Community Finance Ltd.(FCF) Clients: People on a low income or those excluded from mainstream financial services. Nature: A not-for-profit company benevolent organisation.	Personal loans, No interest loan, Microenterprise loan, Education loan, Disability loan, Loan Amount: AUD 500-5,000.	The information on interest and fees not fully available. Loans for household and white goods: 5.99% per annum. Microenterprise loans: Data were not available. Variable interest rates are set above the market reference rates.	Funding Source: Commonwealth Govt, Victorian Govt, NSW Govt. NAB, Christian Super, English Family Foundation, McKinnon Family Foundation. Established in 1999 – limited by shares. Viability: Covers its operational costs.
Fair Finance Australia (FFA) Clients: People on a low income. Nature: Not-for-profit benevolent organisation.	Consumer Loans. Loan Amount: AUD 1,000 – 4,000.	Interest: 35% APR	Funding Source: Foresters Community Finance, NAB, Federal Government's Community Development Finance Institutions (CDFI) pilot. Viability: Established in 2010 by FCF; operating as a pilot; not yet viable.
Fair Loans Foundation	Consumer Loans.	Interest: 35% per annum.	Funding Source: NAB and CDFI pilot

Organisation, Clients, and Nature	Product and Loan Amount/Size	Interest or Service Charge	Funding Source and Remarks
Clients: Aboriginals, Torres State Islanders and People on a low income. Nature: Not-for-profit benevolent organisation.	Loan Amount: AUD 1,000-3,000.	Establishment Fee: AUD 2. Fee per transaction: AUD 1.1.	Restructured in 2010 as a charitable foundation. Internet-based lending institution; cloud-based loan management system. Viability: Operating as a pilot; does not show the promise of financial viability.
Manyrivers Microfinance Ltd Clients: Indigenous Australians, refugees, and financially excluded people. Nature: Not for profit benevolent organisation.	Business credit and business support. Loan Amount: AUD5,000 - 20,000.	Interest: 10% per annum.	Funding Source: Westpac, Mining Companies, Mission Australia, Commonwealth Govt, Coles. Operating since 2007. Westpac supports operating costs of Manyrivers. Viability: Not viable.
Mercy Lending Services Clients: Refugees and low-income people. Nature: Not for profit charitable organisation.	Personal credit. Loan Amount: AUD 100 - 1,000.	No interest is charged.	Funding Source: Grants and donations. Operating since 1998 Viability: not viable.
NAB Microenterprise Loans Clients: People on a low income Nature: A CSR initiative; an unincorporated entity of NAB.	Business credit – start-up or existing business Loan Amount: AUD 5,000 - 20,000.	Interest: 9.99% per annum. Monthly repayment charge: 3.25% of the credit limit.	Funding Source: National Australia Bank (NAB), Australian Govt and grants. Viability: Operating since 2007; not viable.
No Interest Loan Scheme (NILS) of Good Shepherd Clients: People on a low income Nature: A programme of GSM (A not-for-profit charitable organisation)	Personal Credit. Loan Amount: AUD 200 – 1,500.	No interest is charged.	Funding Source: NAB, Australian Govt, grants Viability: Operating since 1980; not viable

Organisation, Clients, and Nature	Product and Loan Amount/Size	Interest or Service Charge	Funding Source and Remarks
StepUp Loan programme Clients: People on a low income. Nature: A programme of GSM (A not-for-profit charitable organisation)	Personal Credit. Loan Amount: AUD 800 - 3,000.	Interest: 3.99% per annum.	Funding Source: NAB, Good Shepherd, Commonwealth Govt. Viability: Operating since 2004; not viable.
Savings and Loan Circles Clients: People on a low income. Nature: Unincorporated entities; benevolent organisations.	Interest-free loans to the group members from their savings Loan sizes are determined by the group members.	No interest is charged.	Funding Source: Savings by the members. Viability: Operating for centuries. Self-sustaining; no community cost; operation managed by group members
Tasmanian Small Business Microcredit Clients: People on a low income Nature: Not-for-profit benevolent organisation.	Business loans to start a business. Business mentoring support. Loan Amount: Up to AUD 3,000.	No interest is charged.	Funding Source; Tasmanian Govt, Mission Australia, Good Shepherd. Viability: Operating since 2005; not viable
Traditional Credit Union (TCU) Clients: Loans are only given to the members of the credit union. Nature: An ADI; for-profit organisation.	Business and personal loans, financial literacy, and counseling. Loan Amount: AUD 5,000 - 10,000.	Account Fees: AUD10-20 per month and cost for services	Funding Source: Group of Aboriginal Elders and members' savings, NAB (interest free loan) Viability: Established in 1994, stated to cover its cost.

Source: (Burkett, 2013; Burkett and Sheehan, 2009; Manyrivers, 2011; Westpac, 2011; Plant and Warth, 2013; Foresters, 2013; MCU, 2013; SIA, 2010; NAB, 2008b; NAB, 2007; GSM, 2014b; GSM, 2013; Ravi, 2013).

The ideological debate in Australia, not only influenced the cost of financial services to the financially excluded population but also shaped the organisational designs and modus operandi. Except some of the bigger credit unions having ADI status, most of the MFOs mentioned in Table 5.5 are financially unsustainable. Almost all of them lend consumer loans and not microenterprise or business loans. The credit unions that are for-profit organisations, provide business loans and saving programmes. However, most of the credit unions serve relatively affluent individuals who have their community agenda to finance their businesses and personal needs. To have a clear understanding of microfinancing in Australia, a few from the above list of organisations (see Table 5.5) are briefly discussed below.

A large programme like NILS (GSM, 2013) having a nationwide operation is purposely designed as an unsustainable outfit depending on the continuous inflow of donations and soft loans for running its loan operation. Various microfinance programmes, implemented under the aegis of Good Shepherd, Brotherhood of St. Laurence and Mercy Care, are designed to support immediate personal needs to alleviate economic hardships of their clientele.

However, Manyrivers provides micro and small business loans. Given its focus on enterprise loans, Manyrivers successfully procured funds from *both philanthropic and corporate donors* (Plant and Warth, 2013: 112). Being in a non-consumer segment of lending, Manyrivers does not come under the National Consumer Protection Act 2009 like other MFOs. Though, Manyrivers provides loans for microenterprises, its design, and overall modus operandi are dissimilar to the successful Grameen Bank (GB) replication overseas. As such, it is neither a social business nor a sustainable operation.

Bank Australia (BA) is a customer - owned bank (COB) (COBA, 2014a), a member of the Global Alliance for Banking on Values (GABV, 2014). BA's ownership feature has semblance with GB in Bangladesh which is *owned 75% by GBs clients* (GOB, 1990: 5). With structural similarities with Grameen Bank Model (GBM), BA is operating successfully within the current banking regulations and though, it does not finance the very poor, and as well not without collaterals, it neither does inhibit anyone on the criteria of income or asset from being a shareholder of this bank. BA's open - ended inclusive policy, and the operational system are less discriminatory when compared to conventional banks in Australia. The citation of BA and its relevance to this discussion is, therefore, a good example from the perspective of design and inclusive approach to banking.

Fitzroy and Carlton Community Credit Cooperative (FCCCC) was merged in 2013 with Bank Australia (Bankmecu, 2013: 12). FCCCC is a regional organisation with a specific community focus that spawned from a project of Brotherhood of St Laurence. Most of the members of FCCC are dependent on Centrelink support. This merger with BA was claimed to be beneficial for the company's sustenance without jeopardising the financial services to its customers.

Community Sector Banking (CSB) is a wholly owned subsidiary of Community Sector Enterprises Ltd (CSEL). CSEL is a joint venture between Bendigo and Adelaide Bank Ltd (Bendigo Bank), and Community 21 Ltd, an organisation owned by twenty not-for-profit (NFP) community sector enterprises. CSB is an institutional arrangement providing banking and financial services to its partner enterprises and operate under Bendigo Bank's credit license (CSB, 2012; BB, 2014). The community partners refer the clients to CSB and conduct monitoring and supervision of its activities. The on-lending fund is provided by Bendigo Bank. An initial loan loss reserve, created from the proceeds of Bendigo loan, has been set up to protect Bendigo Bank from possible default by clients of community sector enterprises.

CSB model is an innovative response to access finance from a commercial bank for microfinance clients of partner organisations. The community organisations, not microfinance clients, are direct customers of CSB. Except providing an on-going funding access for carrying out loan operations by the NFP partners, the arrangement does not solve the problem of restriction around deposit mobilisation and a legal framework for a microfinance bank, two of the critical initial steps to institutionalise banking for the poor (Yunus, 2006a).

Though the impact studies on consumer loans to the low-income people in Australia have recorded positive social outcomes (Ayres-Wearne and Palafox, 2005; Burkett and Sheehan, 2009; Dale et al., 2012; Plant and Warth, 2013), the permanent reliance of microfinance provider organisations on grants and donations is practically a perpetuation of the cycle of dependency. It can be argued that a microfinance loan that does not bear any interest or carries a lower than the market rate of interest is a way of transferring subsidy from one entity to another. Safe and affordable credit needs to be defined to equate this with opportunities that others have in society.

Considering exorbitant interests being charged by many *unregulated money lenders like payday lenders, pawnbrokers, store debt, wrap loans, low doc* (ANZ, 2004b: 96) and similar other loans, *an interest rate cap of 48 per cent in NSW, ACT, Victoria and Queensland* (Burkett and Sheehan, 2009: 11) was introduced. This, however, did not dissuade many fringe lenders *from charging rates as high as several hundred per cent* (NAB, 2008a: 2) taking advantage of legal loopholes (Howell, 2009).

Most of the key players in microfinancing, except Fair Finance Australia, and Fair Loans Foundation, charge interest below this interest cap of 48 per cent per annum. Some of the MFOs under Community Development Finance Institution (CDFI) umbrella like Fair Finance Australia, Fair Loans Foundation, Foresters Community Finance Ltd., specifically designed for serving the people on low-income, and those who are financially excluded. These organisations charge interests as high as 35% Annual Percentage Rate (APR) (Plant and Warth, 2013), fees, and penalties in the event of any loan default. These MFOs are also being funded by the Federal Government, and other private partners.

In the absence of legally enforceable interest cap for lending outside the mainstream banking, the lending charges (including fees and interests), remain high (Scott, 2008; Howell et al., 2008). *The fringe lenders charge interest rates ranging from 48% to 1000% per year* (Infosys, 2008: 96; ANZ, 2004b: 96; ITL, 2008; Banks et al., 2012; Wilson et al., 2009)

Amartya Sen (2009), while discussing justice and fairness, posited *that the foundational idea in relation to fairness is the demand for impartiality, and the need to avoid being influenced by eccentricities and prejudice* (54) to build a just society based on Rawls's (1999) formulation of basic social institutions, essential to creating a just and fair society. Reverberating Rawl, Yunus (2006a; 1991) argued that unjust institutional arrangements created an unfair society, and the establishment of sustainable institutional arrangements is essential to redress this issue. Yunus (2009) was against both extreme of financial costs. He advocated for a fair interest rate.

5.7 Legal and Regulatory Environment

A sound regulatory policy contributes *to structural reforms, liberalisation of product markets, international market openness, and a less-constricted business environment for innovation and entrepreneurship* (OECD, 2010: 5). The Constitution of Australia established a federal system of government. Under this system:

> *Powers are distributed between central government i.e. the Commonwealth, and the regional governments, i.e. the six states and two territories* (COA, 2010a: iv).

Therefore, any business or institution needs to comply with Federal, State and Local Government laws and regulations for operating within Australia. Australia's legal and regulatory framework enshrines the nature of its constitution and the values therein.

While financial regulations are intended to ensure fair play, competitiveness, consumers' interest, overall dynamism and growth of the financial market, the existence of dominant interest groups is found to work against anti-monopolistic ideals. The four-pillar policy of the Australian banking industry is one such instance.

Following two sections (i.e. Sections 5.7.1 and 5.7.2) discuss existing financial regulations and the nature of financial market in Australia. Financial regulations determine the way a financial market operates. The nature of a financial market explains market dynamism and its operatives, barriers, and opportunities for new innovations, identify the key players, their prerogatives and the power they exercise.

5.7.1 Existing Financial Regulations

Financial regulation is part of an overall regulatory framework with tiers of supervisory and coordinating agencies. Effective regulation fosters growth, attract investment and encourage innovation and market openness. OECD (2010) reported that:

> *A poor regulatory environment undermines business competitiveness and citizens' trust in government, and it encourages corruption in public governance* (7).

The financial regulations in Australia have matured over the years in a shifting competitive landscape (Rubenstein and De Jong, 2004; Edey and Gray, 1996), and are stated to have accommodated both local and global challenges (Brookings, 2007; AFMA, 2013). Australia being an open market-based economy, *its financial system is predominantly privately owned and operates according to market principles* (COA, 2014d: 2).

With well-regulated and transparent legal and tax systems (Payne, 2013; Hunter-Schulz, 2005), *Australia offers a stable market for doing business with a high degree of economic freedom and market stability* (Moorestephens, 2013: 3). As such, Australia is now an integral part of a fast - changing global economy (Conley, 2009). Adapting to these changes is quintessential to maintain Australia's competitive edge (Gates, 2001). Being one of the leading economies in the world

(ATC, 2015) *formulating appropriate regulatory responses to both internal and external challenges are key in shaping the welfare of economies and society* (OECD, 2010: 5).

The entire financial services sector in Australia is overseen by the Council of Financial Regulators (CFR). It is a non-statutory coordinating body comprising of Australian Prudential Regulation Authority (APRA), Reserve Bank of Australia (RBA), Australian Competition and Consumer Commission (ACCC), and the Commonwealth Treasury. CFR advises the Government on financial regulatory issues and recommends any measures to increase efficiency, stability, and effectiveness of the system. The members of CFR signed multiple Memorandums of Understanding (MOU) between them to streamline and specify their respective roles and obligations to ensure effectiveness in coordination and outcomes (CFR, 2008; APRA and ASIC, 2010; RBA and APRA, 1998; ASIC and RBA, 2002).

APRA supervises all the deposit - taking institutions (i.e. banks, credit unions, mutual banks and building societies), insurance and fund managers (i.e. life insurance and general insurance companies, superannuation funds, other than the self-managed ones, and friendly societies) within Australia. *Australian Securities and Investment Commission (ASIC) is responsible for the financial market integrity, business conduct and disclosure and consumer protection in the financial system* (APRA, 2014: 3).

As a central bank, RBA is the financial agent of the Australian Federal Government and does not supervise any individual financial institution. It is the sole body responsible for Australian monetary policy, and to stabilise the country's financial system. It also provides emergency liquidity support, manages Australia's foreign reserves, issues Australian currency notes, and keeps an eye on the overall health of Australian financial system as one of the important members of CFR. (Rubenstein and De Jong, 2004; RBA, 2014).

Table 5.6 provides the list of key regulations and regulatory agencies in Australia that oversee various functions in both financial and nonfinancial sectors. Since regulation in the financial sector is invariably intertwined with overall regulatory framework; the following list illustrates Australian regulatory environment, nature of the financial market and the roles of various agencies in matters to regulations.

Table 5.6 Regulations and Regulatory Agencies in Australia

Regulations and Regulatory Agencies	Year of commencement/ establishment	Functions	Remarks
Cooperative Act	Existed in Australia since 1850 (Balnave and Patmore, 2012).	The Act provides the formation, regulation and operation of cooperatives in Australia.	Every state and territory has its own legislation for establishing cooperatives within Australia (POV, 2013; QPC, 2014; NSWP, 2012). The credit cooperatives are formed under Cooperative Acts. Cooperative Act is an alternative legislative option to form microfinance social business.
Commonwealth Treasury	1902	*It is responsible for 21 broad areas of regulation that includes, among others, economic, fiscal and monetary policy; taxation, financial sector policy, business, law and practice; competition and consumer policy; corporate, financial services and securities law; consumer credit and small business policy and programmes* (COA, 2015b: 9,10*)*.	The department works with the APRA, ASIC, RBA via the council of financial regulators working group to ensure market oversight and stability, crisis management and growth.
Australian Taxation Office (ATO)	1910	*The ATO is the Government's principal revenue collection agency and administers a wide range of tax legislation* (APSC, 2013: 2).	ATO is the principal agency in securing any tax concessions for the NGOs and non-profit organisations including social enterprises.
Banking Act of 1959 (COA, 2014a)	1959	It is the primary legislation under which all the Authorised Deposit-taking Institutions (ADI) operate.	If a microfinance social business is to be operated with the provision of taking deposits from the customers, it has to conduct its business in accordance with the Banking Act.
Reserve Bank of Australia (RBA) (COA, 2007)	1960	Established by the Reserve Bank Act of 1959, RBA is Australia's central bank. It is the sole custodian of Australia's monetary policy, responsible for	It is one of the members of the council of financial regulators.

Regulations and Regulatory Agencies	Year of commencement/ establishment	Functions	Remarks
		maintaining a strong financial system, and issues bank notes.	
Privacy Act 1988 (OLDP, 2007)	1988	The Privacy Act enumerates the Australian Privacy Principles (APP) that sets out standards, rights and obligations in relation to handling, holding, accessing and correcting personal information (OAIC, 2014).	The Act is relevant to collecting and sharing information on microfinance clients for the purpose of carrying out business /activities of the organisation.
Australian Securities and Investments Commission (ASIC) (COA, 2001a)	1991	ASIC, is the key corporate and financial regulator in Australia, and regulates registered companies and administers the Corporations Act (COA, 2001b).	ASIC issues Financial Services License (AFSL) for conducting financial services business and also issues Australian Credit License (ACL) to engage in credit activities under NCCP Act 2009.
Australian Competition and Consumer Commission (ACCC), or ACCC 1995	1995	ACCC is responsible for creating a fair and competitive operating environment for the businesses. It administers the Competition and Consumer Act 2010 (COA, 2012a), and Australian Consumer Law 2011(AGS, 2011) that details out the consumers' rights and responsibilities and fair conducts by businesses.	Any business to operate in Australia comes under the jurisdiction of ACCC.
Australian Prudential Regulation Authority (APRA) (APRA, 2014)	1998	APRA is one of the four independent agencies that oversees the Australian Financial System.	As one of the supervisory agencies, regulating the financial system, APRA is also responsible for establishing prudential standards of the financial institutions and issuing license or authorisation to conduct banking business as per Banking Act.
Corporations Act 2001 (OLDP, 2005; OLDP, 2012; COA, 2001b)	2001	Corporations Act provides the legal requirements to the formation of companies, relevant financial products, and services.	If a microfinance social business is to be established, adherence to the regulations in Corporations Act 2001 is essential.

Regulations and Regulatory Agencies	Year of commencement/ establishment	Functions	Remarks
The National Consumer Credit Protection Act 2009 or NCCP Act 2009 (DOT, 2014)	2009	Established a national licensing regime for the regulation of consumer credit in Australia.	The new regime requires all credit providers to register with ASIC for engaging in credit operation in Australia.
Competition and Consumer Act 2010 (CCA) or CC Act 2010 (COA, 2012a)	2010	Relates to competition, fair trading and rights and privileges of consumers.	Consumer rights are set out in Schedule 2 as Australian Consumer Law, effective from January 2011(COA, 2010b).
Australian Charities and Not-for-profits Commission Act 2012 (ACNCA) or ACNC Act 2012 (DOT, 2012)	2012	ACNC Act 2012 established the Australian Charities and Not-for-profits Commission and a national regulatory framework for the not-for-profit sector and for related purposes.	The national regulatory framework was established through ACNC Regulation 2013.
Cooperatives (Adoption of National Law) Act 2012 or CNL 2012	2012	To bring in uniformity of laws and regulations of cooperatives in different states and territories in Australia; a common template is being followed as per the Australian Uniform Co-operative Laws Agreement (AUCLA).	This template is being adopted by each state and territory or by passing alternative legislation consistent with the Co-operatives National Law (MCCA, 2012)
Australian Charities and Not-for-Profits Commission Regulation (ACNCR) or ACNC Regulations 2013(OPC, 2013)	2013	Established under ACNC Act 2012, it provides regulation on governance of NGOs registered either as a charity or as a company.	If it is registered as a charity ASIC waives some obligations that are applicable to non- charity organisations.
Charities Act 2013 (POA, 2013)	2013	Defines charity and charitable purposes and related issues,	In this Act, a Charity is defined as a not-for-profit entity, for charitable purposes and for public benefit. The entity is not an individual, a political party or a government entity.

Note: Regulations and regulatory agencies: Arranged according to the year of commencement/establishment.

A review of Australian regulatory scenario reveals a continuous refinement in keeping the system functional, efficient and to accommodate emerging priorities. For example, to bring in uniformity in operation among the cooperatives in Australia, the Ministerial Council on Consumer Affairs (MCCA) decided in 2007 to operationalise a uniform legislation for co-operatives in different states and territories operating under the Corporations Act 2001 (MCCA, 2012).

The Cooperative National Law 2012, regulates a cooperative to operate across the states and the territories and to expand at ease without being confronted with conflicting regulatory provisions in different jurisdictions. The creation of APRA in 1998, on a recommendation of Wallis Committee (COA, 1997), is another example that complements the works of RBA by developing prudential policies that *balance financial safety, efficiency and competitive issues* (Rubenstein and De Jong, 2004: 4) within the financial system.

The new laws and regulations like Privacy Act 1988, Corporations Act 2001, NCCP Act 2009, CC Act 2010, ACNC Act 2012, ACNC Regulations 2013, Charities Act 2013, and establishment of various regulatory authorities like ASIC 1991, and ACCC 1995, were added after the 1980s in Australian regulatory system. These are natural corollaries to ensure robustness of the system, and as well to keep pace with emerging legal, institutional and ethical priorities in both local and global contexts (Deloitte, 2014a).

5.7.2 Nature of Financial Market

In the above backdrop, the financial market in Australia consists of RBA (Australia's central bank), commercial banks, merchant/investment banks, branches and subsidiaries of foreign banks, finance and leasing companies, credit unions, mutual banks and building societies.

For more clarity in nature and functions of various types of financial institutions in Australia, these can be classified into three broad categories: Authorised Deposit Taking Institutions (ADI), Non-ADI Financial Institutions, and Insurers and Fund Managers. Characteristics of each category are illustrated in Table 5.7.

Table 5.7 Types of Financial Institutions in Australia and their Characteristics

	Authorised Deposit Taking Institutions (ADI)	
Type and Number	**Supervisor /Regulator**	**Main Characteristics**
Banks (70)	APRA	Provide wide range of financial services to all sectors of economy including fund management and insurance services Foreign banks are allowed to operate as branches; operate only in wholesale deposit market
Credit Unions and Mutual Banks (85)	APRA	Mutually owned institutions Allowed taking deposits from its members only Loans and other financial services are restricted to members only
Building Societies (9)	APRA	Raise funds from deposits from households Provide loans (mortgage finance) for owner occupied housing
	Non-ADI Financial Institutions	
Merchant Banks (16)	ASIC	Operate in wholesale markets; borrow and lend to large corporations
Finance Companies (63)	ASIC	Not allowed to take deposits Loan to small and medium sized businesses and to households Raise funds from wholesale markets using debentures and unsecured loans from retail investors
Securitisers (data not available)	ASIC	Provide mortgage-based housing loans; usually through use of guarantees and third parties.
	Insurers and Fund Managers	
Life Insurance and General Insurance Companies (145)	APRA	Life Insurance: Provide life, accident and disability insurance, annuity, investment and superannuation products General Insurance: Provide insurance for property, motor vehicles, employees liability
Superannuation and Approved Deposit Funds (3,041)	APRA	Manage superannuation funds from employers and employees Provide retirement income benefits Fund are managed by professional fund managers
Friendly Societies (12)	APRA	These are basically mutually owned cooperative financial institutions Members are exclusive customers

Source: (COBA, 2014b; CANSTAR, 2013).

Authorised Deposit Taking Institution (ADI) was created in July 1998. ADI is an institution that can conduct banking businesses i.e. takes money on deposits from customers and provides banking and other financial services to them (APRA, 2014; RBA and APRA, 2012). All ADIs are regulated by APRA under the Banking Act of 1959. Additionally, anyone who wants to engage in the business of providing financial services in Australia needs to obtain Australian Financial Services License (AFSL) from ASIC.

ASIC also issues Australian Credit License (ACL) to entities and individuals for carrying out credit activities within Australia. This is issued under the NCCP Act 2009 for credit activities conducted by not-for-profit and charity organisations, and as well as organisations and individuals who extend credit services to individuals and households for personal purposes or investment in residential properties (ATC, 2011).

Many of the ADIs in the category of credit unions, building societies and mutual banks formed an association with the name of Customer Owned Banking Association (COBA). With a membership of about 90 ADIs, COBA offers a full range of banking services to its members only (COBA, 2014a).

However, members of COBA, or any of the credit unions, building societies or mutual banks are restricted by APRA to mobilise deposits from the general public and corporates which form bulk of the assets or loanable funds in publicly listed banks (IMF, 2013; Farag et al., 2013; Buehler et al., 2013). However, APRA can, at its discretion, decide, based on nature, merit, and purpose of each ADI, other than publicly listed retail banks, the extent of financial services that an ADI is permitted to provide.

The Australian Government provides protection to depositors up to the limit AUD 250,000 per account-holder per ADI under a scheme named as Financial Claims Scheme (FCS) effective from 1 February 2012 (Turner, 2014; Schwartz, 2010). This is an additional support to the ADIs by the Government. It is also an assurance to the depositors to have their deposits recouped up to a certain amount in the event of failure or default by an ADI.

The financial market is dominated by the ‘big four banks’ in Australia: Commonwealth Bank of Australia (CBA), Westpac Banking Corporation (Westpac), Australia and New Zealand Banking Group (ANZ), and National Australia Bank (NAB). Together, *these four banks hold about 87.5%*

of the home loan market and 82.6% of all lending in the country (Richardson, 2012: 10). They are four of the five biggest companies in Australia (Jericho, 2014). Banking in Australia is highly profitable, especially the ones who are dominating the market in a monopolistic way.

While the Australian financial regulation has ensured stability and transparency in the banking sector, it has also resulted in the concentration of banking industry in the hands of a few powerful groups within Australia. As per the current regulation:

> *A company or an individual can have maximum 15% share in a financial institution. Subject to a national interest test, only the treasurer can make an exception to this provision under Financial Sector (Shareholdings) Act 1998* (ATC, 2011: 49; DOT, 2015).

Richardson (2012) reported that three groups: HSBC Custody Nominees (Australia) Ltd, JP Morgan Nominees Australia Ltd, and National Nominees Pty Ltd held more than 41% share in Australia's top four banks. HSBC Custody Nominees alone held about 18% share on an average in ANZ, Commonwealth Bank, NAB and Westpac The *same shareholders own about 40% share in the three big regional banks i.e. Bendigo, Suncorp and the Bank of Queensland* (Richardson, 2012: 16,17).

The Australian government openly patronises the *four pillars policy* (Harper, 2000: 67) with the resultant lack *of focus on competition and innovation* (COA, 2014d: xiii). The financial system inquiry final report (COA, 2014d) also pointed out this longstanding status quo policy by the Federal Government. The report specifically mentioned that undue influence is being exerted on the financial sector by the big four banks. It is, therefore, reasonable to assume that any regulation that is detrimental to the interest of the major players are being pushed aside. The unfair treatment of smaller players in the market, especially the credit unions, building societies, mutual banks and other financial intermediaries in the market deprived them of their due market shares. Lack of market share made these organisations less competitive affecting their economy of scale, and restriction to mobilise deposits outside their members.

The Economics Reference Committee (ERC, 2011) of the Senate emphasised the need to increase competition to make it more consumer friendly and deplored that *the Australian banking market is highly concentrated* (xvii). Lack of competition in any industry not only chokes innovation, but it also breeds the culture of complacency and compromises customers' interests (Read, 2014).

5.8 Conclusion

Evidence from multiple sources (i.e. research documents, peer-reviewed journal articles, government documents, reports from the international and local development organisations and practitioners, and magazine and newspaper articles) reveal that financial exclusion and poverty are found to have complementarity in implication and mutual reinforcement. Both are the results of systemic denial, and are, therefore, amenable to appropriate policies ensuring access to opportunities and fair participation of the poor in socioeconomic life. Various studies (Burkett and Sheehan, 2009; Plant and Warth, 2013; Alex, 2012; Baur, 2013) recognised the benefit of microfinance as a financial inclusion tool in Australia. The establishment of CDFP and SEDIF are examples of the efforts by the Australian Government to explore fair and affordable financial services to the low-income Australians.

Extant literature reaffirms that CDFIs and non-profit organisations are the primary providers of microfinance in Australia and all of them are dependent on Government grants, philanthropic donations, corporate CSR, and low-cost funds. Though the CDFIs are construed as social enterprises, they lack in innovation in design, and motivation to be self-sustainable. This can be attributed to the non-emergence of any institutional coherence among the CDFIs who are pursuing different operational tools and strategies in conducting their activities. Some are not-for-profit charitable and benevolent organisations lending without charging any interest (GSM, 2014a; MercyCare, 2012), or lending at varying interest rates (Manyrivers, 2011; Vawser, 2009; Ravi, 2013); while others are organised as credit unions, and or, have retrofitted to combine business principles with that of delivery methods and costs (CSB, 2012; Plant and Warth, 2013).

The ideological debate around fairness and affordability of microfinance products and services have influenced the microlending strategy to be in the category of poverty lending, or welfarist approach as opposed to the financial system or institutionist approach (Moon, 2009; Arjun and Dalton, 2012). Poverty lending approach is indifferent to the financial viability of microfinance organisations (Moll, 2005; Robinson, 2001; Morduch, 2000).

The prudential regulation in Australia restricting microfinance organisations (MFO) to mobilise member savings and public deposits can be argued to be choking innovation, and limiting the scope for self-sustainability of organisations in microfinancing space. The existing financial framework primarily protects the interest of the big four banks (Harper, 2000) and compromises the interest of the financially excluded people (Read, 2014). COBs are an exception to it; being ADIs, they are permitted to collect member savings, enabling many of the COBs (i.e. credit unions) servicing low-income population with the prospect to break even. Despite, a potential microfinance market size that can be as big as AUD 26 billion based on various assumptions (see Table 5.3), microfinance sector in Australia is still in a state of flux. Microfinance organisations are found to be unsustainable and dependent on low-cost loans and grants for their survival.

All the four big banks: NAB, Commonwealth, ANZ, and Westpac have partnered with NGOs and microfinance providing organisations to extend microfinance loans to the poor communities as part of their social obligations. The monopolistic dominance by the big banks (Bennet, 2015; Pascoe, 2016) due to the four-pillar policy (Harper, 2000) in the Australian financial market might make it difficult for any regulatory change to create separate banks for servicing the low-income and financially excluded individuals. This apprehension is on the premise that such changes might encroach on market share of the dominant banks, as the lower segment of the small loans, called the missing middle, is found to be profitable, if properly managed. Therefore, the big four banks are expected to continue to participate and influence the policies in redressing the problems of financial exclusion in Australia (Cabraal et al., 2006; ANZ, 2004a; NAB, 2008a; Westpac, 2011; Connolly et al., 2012), and as well to gain social legitimacy as part of their CSR obligations.

Following the review of the poverty and inequality, and microfinance and its nature in Australia in the preceding two chapters, the next chapter (Chapter 6) discusses the overall design of this research.

Chapter 6 Research Design

6.1 Introduction

The nature and purpose of a study determine the overall design and methods to be followed (Whittemore. and Melkus., 2008). Being a qualitative research, the need for greater clarity of goals during research stages, and rigour in data validation are considered critical (Bean, 2000; Baxter and Jack, 2008; Brikci and Green, 2007). According to de Vaus (2001), *the function of a research design is to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible* (9). One of the key purposes of a research design is to ensure that the evidence does address the research questions and validate the findings (Yin, 2009). de Vaus (2001) asserted that *the concepts of internal and external validity are fundamental to developing research designs* (27).

de Vaus (2001) identified two fundamental research approaches in qualitative research. These are *descriptive research* in social science (i.e. *what is going on*) and *explanatory research* (i.e. *why is it going on*) to address the research problems (1). de Vaus (2001) argued that a good descriptive research is basic to the development of research enterprise as it encompasses the whole arrays of research from both government and private entities and individuals, capturing wide range of social indicators and economic information describing a society, its features, its people, and the way they live and experience. For example, the questions about social inequality, gender discrimination, workplace gender mix are all descriptive research. A factual description of poverty, unemployment, and discrimination are critical *in social policy reforms and provoked 'why' questions of explanatory research* (Goot, 1998; Money, 1999: 2).

In business and management research, an exploratory approach is a preferred option to elucidate further and even expand a known territory, to identify a problem, to clarify a concept, to look for new ideas or hypothesis (Huessey and Collis, 2009). Though, microfinance is now being tested as an alternative paradigm of financial inclusion among the low-income population in Australia, and even in many of the Western countries, including the USA, the extant literature lacks evidence of any research contextualising the Grameen Bank (GB) approach in their respective countries.

Explanatory research focusses on 'why' questions to elicit the causal relationship between a fact and its causes. For example, the descriptive research finds out the prevalence of poverty or inequity in the society; explanatory research endeavors to determine the causes for it. In this instance, Study1: Microfinance Social Business in Australia in Chapter 7, is both descriptive and explanatory in nature.

Studies 2 and 3 in Chapters 8 and 9 respectively, provide case studies of Grameen Bank (GB), and its replication Grameen America (GB) in the USA). Sekaran and Bougie (2010) posited that:

> *Case studies that are qualitative in nature are, however, useful in applying solutions to current problems based on past problem-solving experiences. They are also useful in understanding certain phenomenon, and generating further theories for empirical testing* (109).

Yin (2009) termed a *case study research as an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context* (18). Yin (2009) propositioned that a case study research, depending on the nature of investigation are of three types: exploratory case studies, descriptive case studies, and explanatory case studies. Depending on the research objectives and research questions, a case study research expands or limits its investigation to analyse a case. For example, 'what' questions are exploratory in nature, such as, 'what can be learned from GB in Bangladesh? 'Why' question is important to know about GB and GA, 'how' they operate, 'where' they operate i.e. the context, 'why' they are effective (relevancy and effectiveness), 'what' are their key attributes; are all part of exploratory and explanatory research and directs to the adoption of appropriate methods like experiment, history and case (how and why).

In social science research both Yin (2009), and de Vaus (2001) share the same approach in conducting research that encompasses the whole arrays of socioeconomic information having contextual implications and ontological significance. This means, realities are contingent upon peoples' cognitive perceptions. Therefore, the exploratory, explanatory and descriptive questions, based on the research objectives drive the social science research.

The phenomenology approach in qualitative research has been adopted while collecting and interpreting the first-hand data obtained from the participants for Studies 1, 2 and 3. Here the researcher gleans from the subjective experiences of participants to develop patterns and relationships of meaning (Moustakas, 1994).

de Vaus (2001) argued that research design and research method are two distinct aspects of a research undertaking. One is the logical structure of the enquiry, and the other is the mode of data collection. de Vaus (2001) insisted that the process of *data collection is irrelevant to the logic of the design* (9). Therefore, in this thesis, research method consists of a specific section in each of the three studies.

6.2 Sequential Diagram of the Research

The effectiveness of the entire process of data collection, analysis, and validation depends on the research approach as outcomes are based on logicality of data transformation to draw conclusions (Yin, 2009). While concurrent data collection and analysis approach is followed in this research, a sequential research design captures an overall framework of the strategy adopted for this thesis (Henn et al., 2006). This sequence of events is illustrated in Figure 6.1 The sequential diagram of this research is to be read along with concurrent data collection and analysis in Figure 6.2 that shows data collection and progression at various stages of the research.

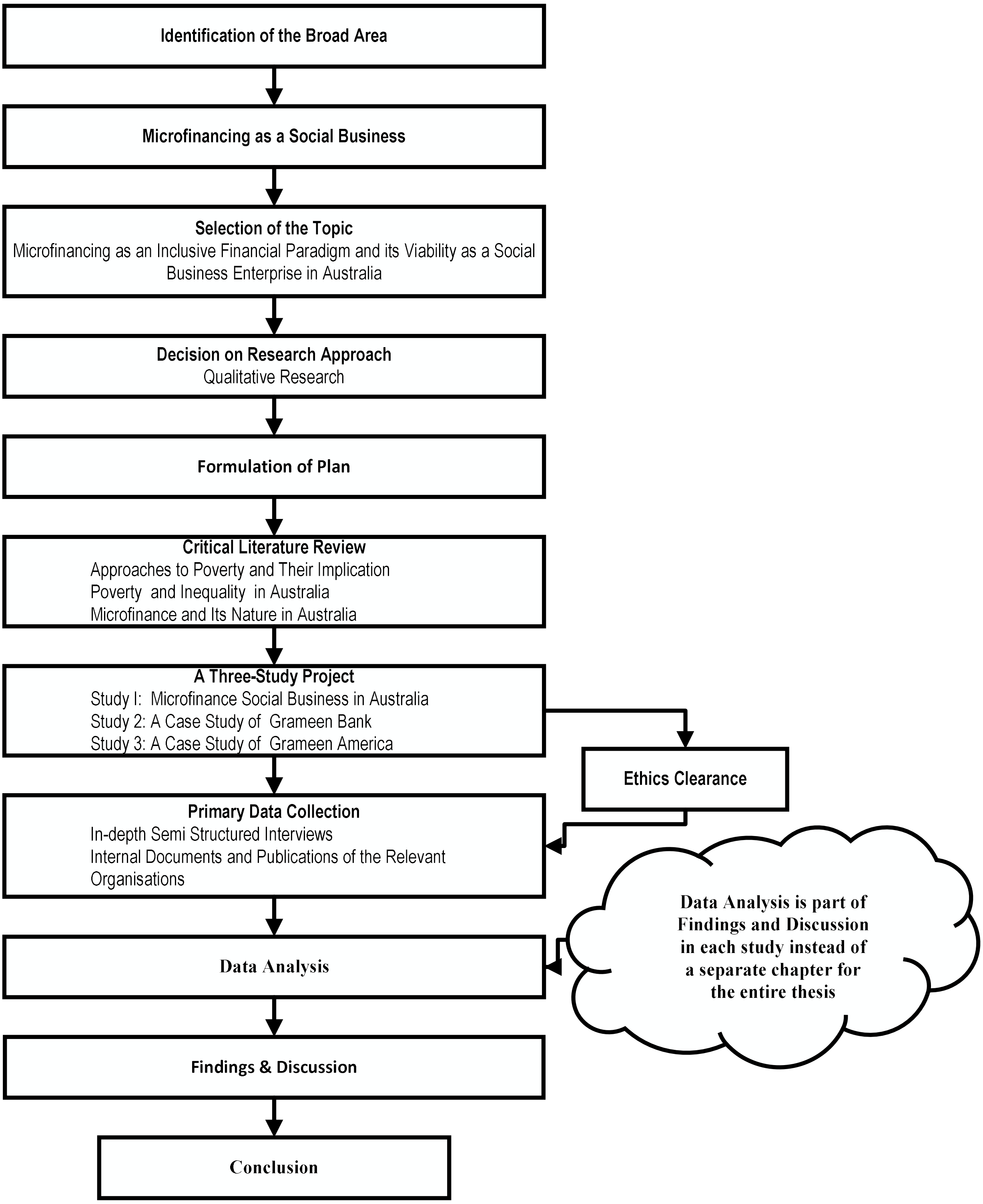

Figure 6.1 Sequential Diagram of the Research

Source: Adopted from Gill and Johnson (1997: 3).

The sequential approach to a research undertaking begins from the idea stage, morphing into a full-blown research with activities culminating to final outcomes or findings (Gill and Johnson, 1997). In qualitative research, the validation of process and the results are important considerations (Davis and Stimson, 1998; Moore, 1997). A sequential diagram enables to pre-empt the *strengths and weaknesses of the design centered around three core areas of methodological, practical and ethical considerations* (Money, 1999: xvii). Figure 6.1 illustrates the process from idea generation to the selection of the topic and working on the strategy to undertake the research on microfinance as a social business. Keeping in focus the inherent traits of social business (Yunus, 2010), the topic incorporates five critical areas of investigation: poverty, microfinance, financial inclusion, social business, and viability in the Australian context. The nature of this thesis has determined the research method, its plan, the nature of data, interview protocols, rigour and a conceptual framework for undertaking the research.

6.3 Nature of the Research

The research uses the epistemological framework with a constructivist approach (Gringeri et al., 2013; Maynard, 2006). In qualitative research reality and knowledge are assumed to be socially constructed, and are, therefore, contingent upon human practices and experiences (Crotty, 1998; Schutz, 1963; Denzin and Lincoln, 2011). This notion of construction of reality and knowledge is further corroborated by *the ontological claim that social practices constitute real objects and subjects* (Packer, 2011: 11). Thus, the experiences and notion of reality by the interview participants in this study might not synchronise with practitioners of microfinance in other parts of the world, including Australia. Scott's (2009; 2001) *three pillars of institutions* (2009: 465; 2001: 52) expounded in his institutional theory, and the paradigm of causality between fit and performance in contingency theory of organisations by Donaldson (2001) in his *SARFIT model* (182), helped to explain these phenomena.

The construction of reality and knowledge emerges from discourses with the participants, and this knowledge is understood by meanings that individuals attribute to that knowledge, their thoughts, feelings, beliefs and actions (Illingworth, 2006; Minifie et al., 2013). In this instance, microfinance practices in different sociocultural settings are explained from everyday experiences of practitioners, clients and broader stakeholders who are directly and indirectly impacted by microfinance operations in a variety of ways.

Miller and Crabtree (1999) noted that *pluralism, not relativism, is stressed with a focus on the circular dynamic tension of subject and object* (10). Since, construction of realities is a social phenomenon and depends on interpretation by individuals or societal reality (Searle, 1995), one of the benefits of this approach is close interactions between the researcher and participants, enabling participants to share their perspectives. This approach is useful to understand realities experienced by participants that form the basis for their actions and strategies, be it at an individual level or an organisational level, thus enabling the researcher to conceive the rationale for their actions (Lather, 1992).

It may be relevant at this stage to clarify the reasons for avoiding objectivist epistemology approach in this research. In social science, especially in areas that require innovation, creativity and contextualisation of time and events to grasp fully meanings and implications of people's behaviour and aspirations to address their unique needs, the objectivist epistemology is not effective. Even the two key theories, institutional theory (Scott, 2009) and contingency theory (Donaldson, 2001), used in this research, do not sync with the objectivist epistemology paradigm.

Within the constructivist epistemology, different theoretical perspectives enrich research and help to perceive underlying meanings and their interpretations. Theoretical perspectives are, in essence, various assumptions that a researcher resorts to, while undertaking research.

The key theoretical perspective assumed in this research is the phenomenological approach to discover how meaning is constructed (Davis, 1991). *All our knowledge of the world, even scientific knowledge, is obtained from one particular point of view, or from some experience of the world* (Phillipson, 1972: 123). Seen from this perspective, individuals relate to external realities and find meanings of their actions through their unique experiences with the phenomenon (Morse and Richards, 2002).

Therefore, experiences and insights of participants are carefully analysed to understand the relevance and effectiveness of their undertakings and meanings, thus created, through their interactions with the world in which they live (Crotty, 1998; Davis, 1991). Interviews conducted for this research are, in fact, personal experiences of the selected individuals involved at various levels in their respective organisations. What I have attempted as a researcher is to interpret their views on a specific theme or an issue to understand their perspectives about a situation and time, relevant to their experiences.

6.4 Justification of the Qualitative Approach

There are mainly three reasons for choosing the qualitative method.

Firstly, understanding a complex issue requires a contextual analysis, a qualitative analytical method is appropriate for it (Creswell and Clark, 2011). The qualitative research method is based on multiple views and voices and allows for the construction of reality and knowledge to be mapped out. This knowledge is understood with the meaning that individuals attribute to that knowledge: their thoughts, feelings beliefs, and actions (Illingworth, 2006). First-hand interactions with the selected microfinance organisations and related stakeholders also enabled the researcher to gain an understanding of their perspectives relevant to the research objectives and research questions. This would not have been possible through quantitative research that mainly relies on measurement and analysis of the causal relationship between variables and not processes (Denzin and Lincoln, 1998; Denzin and Lincoln, 2005; Gummesson, 1999).

Secondly, data collection and analysis in qualitative research can take place concurrently. This procedure facilitated the researcher to reflect and review information with more objective reasoning. Data analysis is a continuous process and findings are refined and triangulated to remove any inherent bias to ensure objectivity as far as practicable (Dixon-Woods et al., 2004).

Thirdly, the qualitative research enabled the researcher to understand contextual relevance and adaptation process being followed by various stakeholders of microfinance in three different countries. As Berg (2001) posited that events do not in themselves possess meaning; *meaning is conferred on these elements by and through human interaction* (9).

In addition to obtaining raw and refined data during the course of this research from relevant organisations, the researcher's interactions with the selected practitioners gave clarity of purpose for their actions as objects, people, and situations.

6.5 Data Coding and Analysis

The data from the semi-structured interviews were organised for coding into themes and concepts (Minichiello et al., 2008) and were compared with observations and findings from literature reviews (Jacob and Furgerson, 2012; Rowley, 2002). The volume of data being large, NVivo 10 software was used for this purpose. In the coding process, a sentence is a unit of analysis in a transcript (Tharenou et al., 2007). This initial coding process is called free coding or free noding, and all the coded text in NVivo is stored in the nodes (Bazeley, 2007). The coding of data facilitates in data size reduction (Myers, 2009) for a better understanding from the reduced summary. In its simplest form, a coding is the expression of the latent content in the text (Graneheim and Lundman, 2004). The content analysis (Berg, 1998; Berg, 2001), also called textual analysis, is a useful way of doing it.

The primary data from the interviews were used for content analysis to gather thematic information from qualitative materials. Of the two approaches i.e. template approach and editing approach (Tharenou et al., 2007) for content analysis, this research adopted inductive editing approach in which textual materials are organised into meaningful codes and themes to address research questions (Crabtree and Miller, 1999).

Depending on the nature of each of the studies (i.e. Studies 1, 2 and 3), the data analyses were done keeping in focus the research objectives and research questions. Figure 6.2 illustrates the nature, process and use of the data in this thesis.

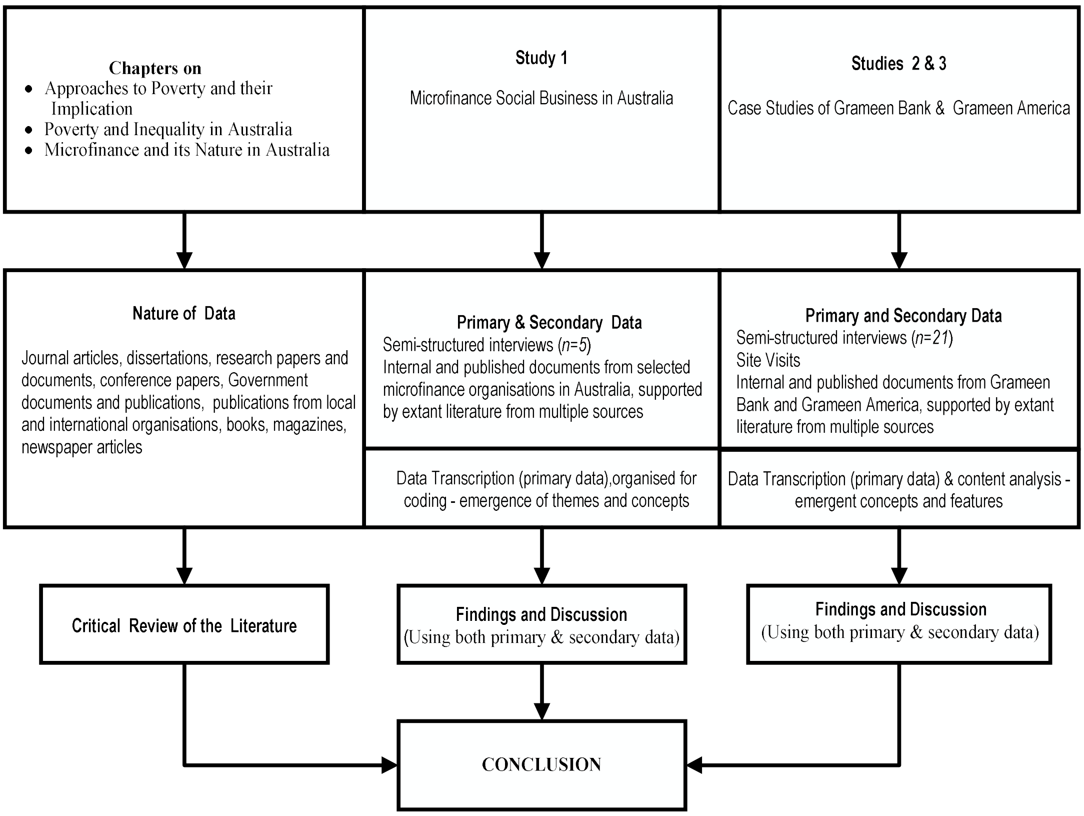

Figure 6.2 Data Collection and Analysis (Multiple sources and multilevel primary data)

The inductive process of analysis has been followed in this research. Thomas (2006) argues that in the inductive analysis findings emerge *from frequent, dominant, or significant themes inherent in raw data, without the restraints imposed by structured methodologies* (238). According to Feeney (2007):

> *The inductive analysis is central to a number of cogitative activities, including categorisation, similarity judgment, probability judgment, and decision making, and has the potential to be theoretically revealing* (1).

In inductive reasoning, an argument emanates from specific to general. People's cognitive perceptions are inductive, and through inductive reasoning, it is possible to collect rich arrays of cognitive inferences (Feeney, 2007). Each of the twenty-six informants in this research spoke about their experiences and understanding of realities around them, and their individual perceptions were the basis of their interactions with the world around them. These are all inductive experiences, i.e. perceiving a reality from personal standpoints. The inductive analysis helped to discover the themes and patterns from the interviews and available data.

In addition to analysis of primary data, the information gathered from the documents obtained from GB and GA and the selected microfinance organisations in Australia, were also analysed to understand, among others, the issues of organisational process and procedures in microfinance management, contextual relevance and philosophical underpinnings of their operations, key elements of success and failures, and adaptability of the concepts in various economic and social settings. The analysis of these documents was useful to corroborate the findings generated from the interviews.

6.6 Ethical Consideration

Before the primary data collection, approval from the RMIT Human Research Ethics Committee (HREC) was obtained (see Appendix 1). HREC approved the contents of the participant information sheets, informed consent forms, and the nature of the indicative questions that were asked to the informants i.e. the interviewees.

The informants were contacted through emails and telephones for arranging the interviews with each one of them. All the semi-structured interviews were conducted during the data collection phase that lasted about six months from the end of June 2014 up to December 2014. Each informant was provided with a set of documents that comprised of a participant information sheet (see Appendices 2 and 3), participant informed consent (see Appendix 4), and a list of indicative questions (see Appendices 6 and 7).

Of the twenty-six informants for primary data collection, nine informants were not comfortable in having their voices recorded. However, they consented to have their conversations written down during the interviews.

6.7 Quality and Rigour of this Thesis

Qualitative research is based on constructivist epistemology where subjective worldviews interpret data, and a phenomenon is understood in a context specific setting (Patton, 2002; Strauss and Corbin, 1990). Quantitative research, on the contrary, is conducted within strict scientific generalised laws where methodological rigour is the mainstay of positivistic epistemology (Golafshani, 2003). In quantitative paradigms, the terms credibility, neutrality or conformability, consistency or dependability and applicability or transferability are posited to be essential criteria to assess the quality of the research (Denzin and Lincoln, 2005; Lincoln and Guba, 1985). Healy and Perry (2000) argued that research paradigm should follow its terms to evaluate its quality. Therefore, qualitative researchers have found alternative ways to ensure their research quality without compromising on the richness of ideas and views *to accurately capture the complexity and texture of qualitative research* (Janesick, 2000: 393). Taking inference from Lincoln, Guba and Denzin (2000; 1985), quality and rigour of this research can be understood from the multilevel and multiple data sources. This aspect of this research is explained in the following two sections (i.e. 6.7.1 Triangulation Process and 6.7.2 Data Reliability and Validity).

6.7.1 Triangulation Process

Triangulation enhances the reliability and validity of collected data. Olsen (2004) defined:

> *Triangulation as mixing of data or methods so that diverse viewpoints or standpoints can light upon a topic to help in validating the claims that might arise from an initial pilot study* (3).

Triangulation may refer to analysing data from multiple sources (primary and secondary) and as well as using different methodologies or approaches on a particular topic (Hussey and Collis, 2009). According to Yin (2009), *the advantage of using multiple sources of evidence is the development of convergence lines of inquiry, a process of triangulation and corroboration* (Yin, 2009: 115,116).

There are four types of triangulation (Denzin and Lincoln, 2005; Patton, 1990). These are data triangulation, method triangulation, investigator triangulation, and theory triangulation. Data triangulation refers to obtaining data from different sources to understand and verify a particular phenomenon. Method triangulation is the use of more than one method to study or enquire about a phenomenon; Investigator triangulation is the collection of data by multiple investigators. Theory triangulation is the use of multiple theories, and concepts to help interpret verify, and explain data. This research has sourced data through semi-structured interviews, from documents generated by the relevant organisations, data collected from third parties i.e. research reports, academic and non-academic books, journal articles, government statistics and documents, periodicals and information obtained from various sources on the internet.The triangulation was done by comparing the information gathered from the primary data sources with that of secondary data obtained from books, research publications, and journal articles and published documents from the relevant organisations.

It is evident that the secondary data assisted qualitative analysis and triangulation to offset bias (Tharenou et al., 2007). In this research, primary data were collected from eight different organisations: Grameen Bank (GB), Grameen Trust (GT), National Australia Bank (NAB), Bank Australia (BA) Manyrivers Microfinance (Manyrivers), Good Shepherd Microfinance (GSM), Australian Financial Inclusion Network (AFIN), and Grameen America (GA), from three different countries: Bangladesh, Australia and the USA .

The selection of multiple informants from the same industry and interviewing multiple persons on the same topic in this research have also facilitated in cross-verification of information. Thus, data obtained from diverse sources had an impact in minimising the error as it was possible to compare their information and views on a similar theme and topic.

The results that can be achieved through triangulation process can also be achieved through the use of secondary data for an investigation. In this event, data are to be procured from multiple unrelated sources, and the degree of authenticity depends on the quality and source of information (Cowton, 1998; Heaton, 2008). A critical review of literature pertaining to poverty mapping of Australia was based on multiple sources of published documents on issues and topics having direct relevance to Australia’s socioeconomic conditions about poverty, inequality and various forms of discrimination affecting a multitude of people.

With data procured from three distinct sources (i.e. primary data, secondary data or extant literature, and internally generated data from the relevant organisations), the triangulation process in this research is shown in Figure 6.3.

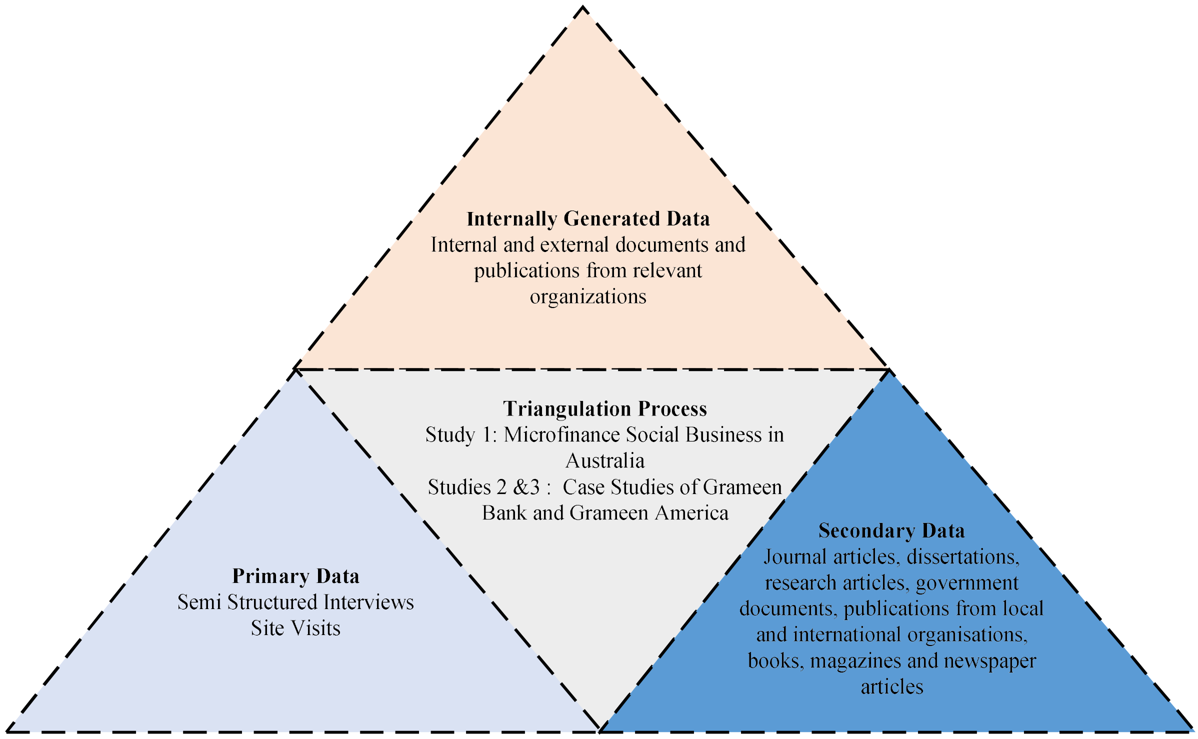

Figure 6.3 Triangulation Process in this Research

One of the common criticisms of qualitative research is its lack of generalisability. The ability to generalise findings to a wider group is a standard test of validity for quantitative research, and these criteria differentiate qualitative research from quantitative research (Maxwell, 1992; Patton, 2002). This inherent limitation of the qualitative research is minimised through triangulation strategy that improves the validity and reliability of research or evaluative findings (Golafshani, 2003). The section on reliability and validity of collected data, used in this research further corroborates the veracity of findings in this research.

6.7.2 Data Reliability and Validity

Reliability and validity of collected data are important in business and management research *to have consistent data and actual measurement* (Tharenou et al., 2007: 269). About data management, Hussey and Collis (2009) would define reliability as the *absence of differences in the results if the research were repeated* (143). Reliable data, properly validated, enhance the quality and rigour of research.

The non-monochromic data for all the three studies (i.e. Studies 1, 2 and 3) from multiple sources helped to understand the extant views and critiques, for and against, on microfinance, its replication and impact, and effectiveness as financial inclusion tool in various socioeconomic, legal and regulatory environments.

Every caution was exercised to avoid researcher bias into collection and interpretation of data. To have reliable information, the interviews were transcribed by the researcher without delay and were sent to the informants for cross checking before using these *to minimize the errors and biases in a study* (Yin, 2009: 45).

The concept of validity in qualitative research is a subject of scholarly debates. While many researchers have rejected the notion of validity in qualitative research, terming it as essentially positivist epistemology (Creswell, 1998; Simco and Warin, 1997), there are others who concede that some form of qualifying check or measure is needed for evaluating qualitative research. This resulted in espousal of different terminologies replacing the word validity in qualitative research with the words like trustworthiness, worth, relevant, plausible, confirmable, credible or representative (Denzin and Lincoln, 1998; Guba and Lincoln, 1989; Hammersley, 1987; Mishler, 1990; Walcott, 1990). Hussey and Collis (2009) have a moderating approach in this debate who argued that validity in the qualitative *inquiry is the extent to which the research findings accurately reflect the phenomenon under study* (143). According to Winter (2000):

> *Validity is a discretely identifiable element of any research project, which is capable of being located at multiple and specific stages within the research. It is not a singular acid test that can be applied to the research process as a whole. The validity measure can be applied differently depending upon the researcher's beliefs as to what stage of the research process is in need of validation* (1).

Maxwell (1992) is credited with identifying *five typologies of validity: descriptive validity* (factual accuracy of data gathering); *interpretative validity* (interpretation of data to confirm or recognise the findings); *theoretical validity* (abstract analysis of immediate physical and mental phenomena studied); *generalizability* (ability to generalise findings to wider groups and circumstances); and *evaluative validity* (application of an evaluative framework) (285).

Angen (2000) terms validity in qualitative research *as the judgment of trustworthiness* (387) that can be attained with some prior review of the literature on a relevant topic (Hussey and Collis, 2009). Critical analysis of extant literature was done for all the studies in this thesis, lending credibility to the findings, and as well clarifying an issue before arriving at a conclusion.

The triangulation of primary and secondary data, including multiple interviews on the same topic of this research, has also enhanced the validity and more so, it has served the purpose of trustworthiness (Yin, 2009). The experience of the researcher as a professional in the areas of microfinance, social and inclusive businesses, has added value and accuracy to this research by way of framing the appropriate questions to understand the issues pertaining to the key research objectives.

6.8 Conceptual Framework

By preliminary literature review, and considering the research problems, research questions; and overall objectives of this thesis, the conceptual framework has been designed and modified as the investigation progressed.

Miles and Huberman (1994) defines a conceptual framework *as the current version of the researcher's map of the territory being investigated; which evolves as the research evol*ves (33). It explains the relationship between different variables and factors or constructs in an inquiry (Miles and Huberman, 1994). Weaver-Hart (1988) argues this:

> *To be tools for researchers to use rather than totems for them to worship and explains that a conceptual framework is essentially a mechanism for systematically arranging abstractions; sometimes revolutionary or original and usually rigid* (11).

Leshem and Trafford (2007) viewed it as theoretical perspectives being related to practical applications. In essence, a conceptual framework defines a theoretical base of the study about the research problem and the research questions. The framework guides the entire research process and establishes *a connection between the theory, earlier findings, and purpose of the present stud*y (Leshem and Trafford, 2007: 96).

In this thesis, the conceptual framework in Figure 6.4 illustrates the institutional environment and its constituents including the adaptation process of microfinance social business in Australia.

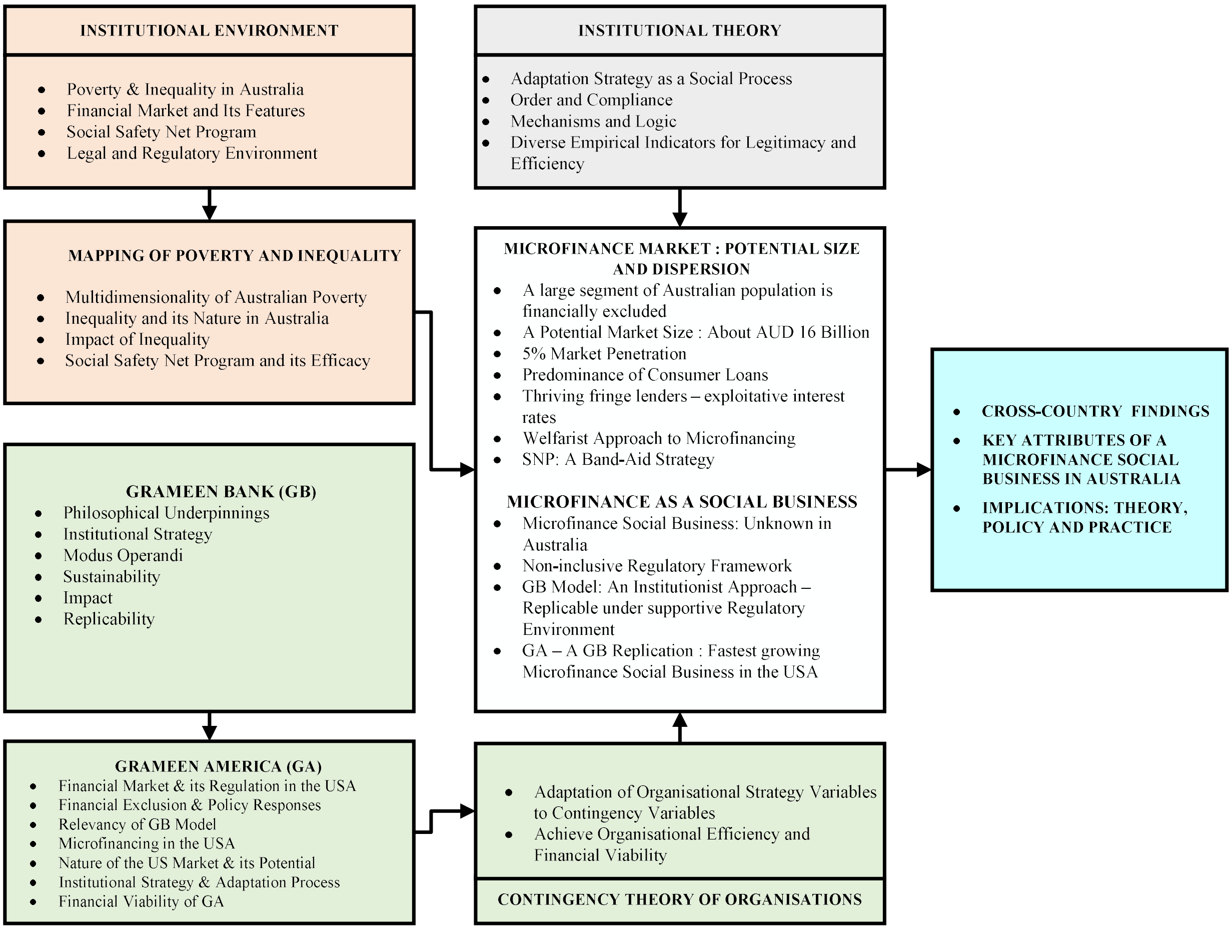

Figure 6.4 Conceptual Framework of the Research

The framework shows how institutional theory and contingency theory explain and establish a connection between the theory and different variables, both internal and external to an organisation, as part of attaining legitimacy and adapting to local conditions as an institution, and as well for achieving organisational efficiency. With the variety of information facilitating to deepen understanding of the problems (Eisenhardt, 2007), the framework elucidates the replication strategy of the GB model in Australian circumstances for constructing and explaining the new paradigm.

6.9 Conclusion

A sequential diagram for this research (see Figure 6.1) presented an overall research approach from the identification of broad areas and selection of the research topic to the presentation of findings. This chapter explained the entire design of the research, elaborated the process followed for Study 1: Microfinance Social Business in Australia, and the two case studies: Grameen Bank and Grameen America. The chapter discussed the rationale for adopting a qualitative method with constructivist paradigm (Stake, 1995; Yin, 2003; Stake., 2008). The epistemological constructivist approach helped the researcher to perceive the reasons for informants' actions and policies being pursued by their respective organisations (Denzin and Lincoln, 2008; Lather, 1992). It described the causes for variance in microfinance practices and designs in different countries and circumstances.

The primary data obtained from different individuals and organisations were useful in understanding the perspectives and perceptions on critical themes and issues of this research. The data were analysed inductively using the editing approach by constructing matrices to identify the key themes and concepts that have emerged from documented experiences of the informants and were critically discussed with findings from the extant literature.

The quality, and rigour of this research were maintained by using data from multiple and multilevel sources. The data triangulation and the process of achieving data reliability and validity were also explained in this chapter.

The conceptual framework elucidates the entire process connecting the theories with other variables pertaining to the research questions and research objectives of this thesis (Berger and Patchener, 1988; Punch, 2000). The framework has provided the research direction by identifying different institutional and organisational parameters in conducting the investigation.

The next chapter is Study 1. It examines the appropriateness of microfinance social business in Australian context following the GB model.

Chapter 7 Study 1: Microfinance Social Business in Australia

Overview

The debate around fairness and affordability in Australian microfinancing (Burkett and Sheehan, 2009) has influenced the nature of local microfinance organisations to the extent that their approach has become non-commercial. Additionally, the charity mindset of Australian microfinance practitioners often makes it difficult for this sector to be self-sustainable because of a reliance on donor funds and soft loans. Microfinancing as a social business with the dual objectives of financial inclusion and poverty alleviation, is, therefore, different from Australian experience.

Study1 investigates Australian microfinance market through an analysis of information derived from both the primary and secondary sources of data. The primary data consist of the in-depth semi-structured interviews with five experienced professionals from the leading organisations involved in community finance, and microfinance as part of financial inclusion strategy in Australia. The multiple and multilevel data are used in this investigation. The present chapter examines the nature and features of microfinance organisations, their potential market size and the legal and regulatory environments in which these organisations function. The study reveals the existence of a potential market for microfinance social business in Australia. Despite a significant number of people being income-poor, and financially excluded; the non-inclusive regulatory regime, the existing policies in addressing the financial exclusion, and the ideological position of microfinance practitioners are some of the challenges in setting up microfinance social business in Australia.

7.1 Introduction

Financial viability of Australian microfinance organisations is one of the critical challenges for growth and sustenance of this sector (Burkett, 2013; Burkett and Sheehan, 2009; IRD, 2009). Financial exclusion, a direct result of inequality vis a vis poverty, is now a fact in Australia (ANZ, 2004b; Chris, 2013; Hems et al., 2013).

The investigation, embedding Australian circumstances, also explores a financially viable microfinance model that generates self-employment, and facilitates the economic participation of low-income and financially excluded men and women in Australia. The Grameen Bank (GB) model, with its global replications, including in the USA (Latifee, 2001; Bilby, 2012; Bjerg, 2013), is an example being considered to assess the market size, and as well the possibility of microfinance social business in Australia. In this regard, the Research Objectives (RO) and associated Research Questions (RQ) for the Study 1 are outlined in Table 7.1.

Table 7.1 Research Objectives against relevant Research Questions

Research Objective (RO)	Research Question (RQ) against the corresponding RO	Studies	Sources of Information
RO2: To identify opportunities for providing credit and financial services to financially excluded population in Australia	RQ2: What is the potential size and dispersion of this market?	Study 1	Semi-structured in-depth interviews of participants. Internally generated data from the relevant organisations. Data from secondary sources.
	RQ3: Is it possible to establish a microfinance organisation as a social business that focusses on positive social outcomes and is also financially viable?	Study 1 Study 2 Study 3	Semi-structured in-depth interviews of participants. Internally generated data from the relevant organisations. Data from secondary sources.

Chapters 4 (Poverty and Inequality Mapping of Australia) and 5 (Microfinance and its Nature in Australia) have provided relevant information from extant literature concerning the socioeconomic situation including existing microfinance practices, and the potential microfinance market in Australia. With inputs from the earlier two chapters (i.e. Chapters 4 and 5), Chapter 7 investigates the market size and dispersion (i.e. Research Question 2) and the viability of establishing a microfinance social business in Australia (i.e. Research Question 3).

Since microfinance social business proposes a self-sustaining organisation as opposed to donor dependent community finance organisations, this investigation goes well beyond the stated concepts of *fair and affordable lending* (Burkett and Sheehan, 2009: 11) by the microfinance practitioners in Australia. Against the above backdrop, Study 1 captures the features of Australian microfinance market, and its potential to support and nourish self-sustaining microfinance social businesses with the dual objectives of financial inclusion and social outcomes. Study1 also discusses the implications of the current mode of operations, broader policy framework, and outlines future directions.

Microfiannce market in Australia is mostly confined to consumer loans dispensed by community organisations. The loan products, modus operandi, and organisational designs are not meant to be sustainable. With subsidised intererst rates, size and strucutre of organisations, and perennial dependence on grants, the organisations are financially and institutionally unsustainable.

One of the essential conditions for growth and sustenance of self-sustaining microfinance social business is the legal and regulatory environments in which they operate. In Australia, microfinance is outside the mainstream market. Being on the fringe, microfinance operations in Australia are constrained in their growth and sustenance, and are controlled charities and not-for-profit organisations.

Evidence (Wilson, 2004; Infosys, 2008; ITL, 2008) suggests that informal money lending to poor Australians is a thriving business. The difference between microfinance in Australia (mostly consumer loans) and fringe lenders, is the predatory lending practices of fringe lenders. The existence of an underclass of welfare recipients and a large number of unemployed, casual, and partial employed people have difficulties borrowing money from formal financial institutions.

7.2 Method

Qualitative data enable the researchers *a detailed understanding and thick description of the phenomenon of interest* (Shah and Corley, 2006: 1822). This study is based on constructivist epistemology with a phenomenological approach (Davis, 1991). The semi-structured interviews conducted for this study tapped the personal experiences of the relevant individuals involved at various levels in their respective organisations. Their views do not reflect those of the researcher or may not even be in sync with those of other participants. Semi-structured interviews allowed additional flexibility in questions and answers (Bryman and Bell, 2011), and also helped to include additional questions to address emerging topics (Collins et al., 2010). Secondary data comprise pertinent research and journal articles, reports, government statistics and documents, books, and websites. Notwithstanding, specific themes have been identified in line with a phenomenological approach which *attempts to forage through the layers of lived experience and cultural knowledge in order to rediscover experience before knowledge and beliefs are used to make a new sense of experience* (Oiler, 1983: 72). This approach is used to identify how microfinance is being practiced and perceived.

Study 1 is both descriptive and explanatory (de Vaus, 2001; Yin, 2009), and attempts to understand the key features of the prevailing microfinance environment in Australia. It also investigates the reasons for adopting various approaches to microfinance by the provider organisations, the rationale for pursuing a strategy leaning on charity-driven modus operandi, and the socio-demographic dynamics influencing and sustaining their current mode of operations.

7.2.1 Participants

In this thesis, the participants are referred to as informants. The term informant denotes people with knowledge and depth in the relevant issues under investigation. These individuals are competent to share their independent opinions and perspectives to assist in accessing the sources of evidence (Myers, 2000). The five organisations from where the five informants were selected, are some of the leading players in financial inclusion strategy in Australia (see Table 7.2).

Table 7.2 Informants and their Organisations

Informants (*n*=5)	**Organisations**	**Credentials of Informants**
PA1	National Australia Bank (NAB)	An experienced banker with long years of involvement in community finance and microfinance in Australia. Works at the policy level in NAB.
PA2	Good Shepherd Microfinance (GSM)	Experienced in community services and microfinance for many years, and is one of the top executives of GSM.
PA3	Manyrivers Microfinance (Manyrivers)	A leading microfinance expert; advised Government of the Philippines on microfinance regulatory issues, and is one of the key persons in the establishment of Manyrivers in Australia.
PA4	Bank Australia (BA)	The informant is one of the recipients of the Future Leaders

Informants (*n*=5)	Organisations	Credentials of Informants
		Award in 2012, and is a member of the senior management team in Bank Australia. Bank Australia is one of the leading Community Owned Banks (COB) in Australia.
PA5	Australian Financial Inclusion Network (AFIN)	The informant is the chairperson of AFIN, the apex body of organisations engaged in microfinance and financial inclusion in Australia.

Note: PA is the Acronym for Participants from Australia.

National Australia Bank (NAB) is one of the four major banks and a leading promoter of microfinance in Australia. Since 2005, it provided more than 145,000 microfinance loans through its specific programmes and partners like Good Shepherd Microfinance (GSM), the Federal Government, and over 400 community organisations within Australia (NAB, 2014a; NAB, 2014b).

GSM is the single largest provider of microfinance in Australia with a current client base of about 155,000 individuals and an average annual increase of about 25,000 members.

Established in 2007, Manyrivers Microfinance Limited (Manyrivers) is a not-for-profit organisation. It specifically focusses in providing microenterprise loans to those unable to access finance from mainstream banks.

Of the five organisations, Bank Australia (BA) is the only organisation not supported by Government grants, soft loans, and philanthropic donations. BA's operational strategy has many features similar to GB. PA3 informed that *BA has a strong focus on sustainable development for unserved people, communities, and the environment*. This bank i.e. BA is a good fit to probe into from the design perspective of a microfinance social business.

Although, AFIN is not a microfinance organisation, the composition of its membership represents a wide spectrum of organisations ranging from microfinance practitioners, non-governmental organisations, development aid agencies, Government departments, policy think-tanks, and research bodies. The perspectives of AFIN on financial inclusion and associated policy and regulatory aspects are considered important for this investigation.

7.2.2 Data Collection Procedures

In qualitative research, there is no absolute criterion and pattern for data collection (Hoepfl, 1997). According to Patton (1990) in qualitative inquiry, *strategic ideals provide a direction and a framework for developing specific designs and concrete data collection tactics* (59). Owing to the diverse methods of qualitative research, the data collection strategy and the nature of data depends on the primary objectives of the research (Patton, 1990). The basis of data collection in this thesis is reliant on the research objectives to investigate the viability of microfinance social business in Australia following the GB model.

Interview protocols were developed for each informant to initiate and re-focus discussions when it was necessary. The protocols (see Appendices 6 and 7) were developed taking into account the nature of each informant and the organisation; each informant represented.

The primary focus of these interviews was to obtain first-hand information on microfinance organisations' features, nature, purpose, the modus operandi, operational strategies, and their underlying moral and ethical motivations against Australia's socioeconomic contexts. Since Australian practitioners in this field find institutional viability of microfinance organisations a daunting task, the interview protocols were designed to elicit views on these critical organisational aspects.

All interviews, except one, were conducted by prior appointments in the offices of the selected participants during September - November period, 2014. One of the interviews was conducted over the phone due to the busy schedule of the participant. Each interview lasted for about one hour on an average.

All interviews were recorded with the permission of the informants and were transcribed by the researcher. On an average about 8 hours were required for transcribing each interview. For accuracy of information, drafts were sent to informants for their review and comments.

7.2.3 Data Analytic Procedures

Section 6.5 (data coding and analysis) describes the data analysis process in this thesis.

An inductive process of data analysis is followed in this research. The inductive analysis helped to identify the themes from the interview materials and available data. Key themes were explained from the perspectives of the informants to address Research Question (RQ) 2 (i.e. what is the potential size and dispersion of this market?), and Rsearch Question (RQ) 3 (i.e. is it possible to establish a microfinance organisation as a social business which focusses on possible social outcomes, and is also financially viable?).

In addition to the use of primary data, documents obtained from the selected microfinance organisations in Australia were also analysed to understand, among others, the issues of organisational process and procedures in microfinance management, contextual relevance and philosophical underpinnings of their operations. The analysis of these documents and extant literature was useful to corroborate the findings generated from the interviews.

7.3 Findings and Discussion

An institution derives its legitimacy to grow and thrive from the prevailing eco-system within which it operates (Scott, 2009), and needs continuous adaptation to internal and external contingencies to efficiently deliver its outcomes (Donaldson, 2001; Pennings, 1992). The Australian microfinance market is inextricably intertwined with the country's socioeconomic, legal and regulatory infrastructures. The adaptation of a microfinance social business, is therefore, examined in the light of changes that are transforming the social and economic landscapes in Australia.

In the following sections, the findings from primary interviews are discussed with the available information gleaned from the extant literature and internal documents procured from the organisations of the informants.

7.3.1 Microfinance Market in Australia

The information generated from the primary interviews were processed using a content analysis (Mayring, 2002; Mostyn, 1985) to glean the key themes to address the Research Questions (RQ). The informants elaborated the themes through different associated perspectives (see Tables 7.3 and 7.4). The findings and discussion relate to the Research Objective (RO) 2 (i.e. identification of opportunities for providing credit and financial services to financially excluded population in Australia), and RQ2 (i.e. what is the potential size and dispersion of this market?). The answer to the RQ3 (i.e. is it possible to establish a microfinance organisation as a social business that focusses on positive social outcomes, and is also financially viable?) is partially covered in the interview findings and the review of the extant literature. These two research questions (i.e. RQ2 and RQ3) are inter-related and contain three issues: potential size and dispersion of microfinance market, microfinance as a social business with its social outcomes, and financial viability of the organisation. A complete answer to RQ3 will be based on the findings from Studies 2 and 3 (i.e. Chapter 8 – A Case Study of Grameen Bank (GB), and Chapter 9 – A Case Study of Grameen America (GA), respectively).

The key themes emerging from the semi-structured interviews are presented separately in Tables 7.3 and 7.4 against research RQs 2 and 3 respectively, and discussed through the key perspectives of the informants.

7.3.1.1 Microfinance Market: Potential Size, and Dispersion

It may be mentioned at the outset, that various socioeconomic factors determine the nature of microfinance market that either constrain or expand its size and dispersion (Njeri et al., 2013; Matlary, 2012). While many of the findings do conform to the information in the existing literature, the informants' perspectives elaborating the key themes are significant in comprehending their individual experiences and rationalisation of their organisational strategies, and moral prerogatives.

Primary data analysis resulted in the emergence of three key themes from the semi-structured interviews addressing the issues of potential size of microfinance market and on the question of establishing a microfinance social business in Australia. The key themes that have emerged from the content analysis (Hsieh and Shannon, 2005; Mayring, 2002; Mostyn, 1985) in relation to potential size and dispersion of microfinance market are market size, consumer loans, and microenterprise loans. These are explained through nine perspectives mentioned in Table 7.3.

Table 7.3 Key themes and Perspectives: Potential Size & Dispersion of Microfinance Market

Potential Size, and Dispersion (RQ2)	
Key Themes	**Perspectives**
1. Market Size	1. Financially excluded population 2. Size of loans 3. Demand for microfinance
2. Consumer Loans	1. Meet immediate credit needs 2. Build asset base 3. Transition to the mainstream
3. Microenterprise Loans	1. Credit check and initial assessment 2. Business training 3. Lending principles

7.3.1.1.1 Market Size

For any business or economic undertaking to be successful, investigation of the market size and its potential is a prerequisite. All the informants (i.e. PA1, PA2, PA3, PA4, and PA5) were in consensus about the existence of a microfinance market in Australia. However, they held different views on the nature of the market, its size and dispersion. The microfinance market size is being discussed from three perspectives. These are, financially excluded population, size of loans, and demand for microfinance.

All the informants were in agreement that one of the key determinants for initiating microfinance is the presence of a financially excluded population in a region or a country. PA1 quoted 17% or roughly 3 million people to be financially excluded in Australia. PA2 expressed her scepticism about 17% criteria and argued that this *estimate excluded people on casual and part-time employment*. She (PA2) explained that:

> *With recent changes in the economy, many people were losing their jobs, and the statistics keep on changing all the time. Most of the casual and part-time employees fall under the low-income category, and many are denied access to finance due to insufficient collaterals.*

The information on poverty collated from multiple sources in Section 5.5, gives an indication of the microfinance market size in Australia. The estimates by the researchers and in various documents of the Australian Government put the figures between 3.1 to 4.03 million people in 2014 (ABS, 2014a; Biddington et al., 2012; Saunders et al., 2014).

While everyone is not able to borrow to invest, a large percentage of the working-age unemployed population are potential microenterprise borrowers. The Zambian example of microfinance for the low-paid employees (Moyo, 2009) discussed in Section 5.5, is a case in hand. The issue of financial exclusion, and the number of people willing to borrow, or more so, willing to invest in business, needs more probe in Australia. PA2 believed that:

> There *is an untapped microfinance market in the range of about 3 million to 6 million, of which, a very tiny percentage of about 5% has been covered.*

Another insight on microfinance market size was shared by PA3 from Manyrivers that provides microenterprise loans, as opposed to consumer loans like Good Shepherd, and most of the microfinance organisations in Australia. PA3 argued that:

> *Half of the estimated 2 million ABN registered small businesses are inactive for various reasons. There is a prospect for a good market size if one can effectively tap into this market.*

PA3 was referring to the family owned businesses having Australian Business Number (ABN). About 78% of the small businesses in Australia did not have hired employees (Connolly et al., 2013). PA3 reiterated that *this market (i.e. microbusiness) does not exist now, it has to be created*. It can be mentioned on this note that a microenterprise business, modelled after the GB approach, is in essence, a family owned enterprise.

The Australian microfinance market is still evolving. The full extent of market size can only be realised when the market expands to cover the microenterprise loans, and as well the 'missing middle'(Sale, 2010; GIZ, 2012) segment of financially excluded individuals, who according to informant PA3, constitute *the bottom part of commercial banks' target market.* Non-conforming to commercial banks' lending practices was cited as one of the major issues for them to be left out. This, in fact, confirmed the existence of a sizeable microenterprise market in Australia that can be serviced with proper institutional design supported by appropriate legal and regulatory backup.

The findings from both extant literature and primary data clearly reveal a significant number of financially excluded population, which is more than oft quoted 17% of the adult Australians. In terms of possible market value, this size has the potential to grow as big as AUD 26 billion under varying assumptions provided in Tables 5.2 and 5.3.

Per head loans or size of loans, availed by individual borrowers were considered necessary by the informants in determining the market size. Loan sizes not only determine the overall market regarding volume, but also in actual number of clients. PA1 informed that *NAB's* *microenterprise loan programme has an average loan size of AUD 15,000, and an individual can borrow up to AUD 20,000 at a time.* PA1 argued that:

> *The market size for microenterprise loans will expand or contract if the loan sizes varied from AUD 10,000 AUD 50,000. It might slide into the mainstream if the loan size was extended beyond AUD 50,000. This would increase the risk of lending without conventional security mechanisms around it.*

PA1 further argued that:

> *Managing securities for loans in the higher slabs of microfinance could have an adverse impact on the microfinance market size. Tying microfinance loans with conventional security arrangement might cause reputational risks for the providers for being harsh on borrowers who are unable to comply with security requirements.*

The above perception from a microfinance practitioner naturally constricted the loan sizes, excluded those willing to borrow higher amounts, and therefore, limited the market as a whole. While microenterprise loan initiative by NAB had bigger loan sizes, the demand for such loans was not many.

As per the information shared by PA3, the average size of microenterprise loans from Manyrivers was about AUD 10,000 in 2014 with a maximum first-time loan being AUD 5,000 for 12 months. According to PA2, *consumer loans provided by GSM range from AUD 200 to AUD 3000, and in rare instances go up to AUD 5000.* Table 5.5 lists the microfinance providers including their loan sizes.

The missing middle segment of microenterprise loans, as mentioned above, is an important area for consideration in determining the per head average loan size of Australian microfinance products. None of the microenterprise loan providers is catering to this market. It may be noted that the existing microfinance in Australia, in *which the share of consumer loans being more than 90%* (PA5), the overall market remains underestimated. Consumer loans in Australia, by their nature and purpose, are small in sizes as these are tied to Centrelink payments, and are not subject to increases beyond a certain amount unlike enterprise loans in which loan repayments are effected from investment incomes.

Expressing her views on market potential, PA1 raised the issue of demand for microfinance loans. She (PA1) argued that:

> *Not all the poor and financially excluded population were likely to set up businesses; and not all of them wanted debts, even if they wanted to set up businesses. The people who are going for a fridge are not the people who are setting up a business.*

PA1 was of the opinion that:

> *One had to be aware that those differences were there for any other market, and there was the need to build products for customers, and this is quite fundamental.*

PA3 insisted that:

> *Microfinance as a whole was already a big industry of about AUD 2 to AUD 3 billion, and the market was growing.*

The above estimate of the existing market size might have included both formal and informal fringe lending markets including pawnbrokers (Banks et al., 2015; Infosys, 2009; ITL, 2008). The information on fringe lending market discussed in 'demand for microfinance' lends credibility to PA3's estimate.

Both PA2 and PA5 deplored that mainstream banks did not service people who needed to access funds of less than AUD 5,000. She (PA2) argued this to be:

> *A market failure and it led to about 10th fold growth in the fringe lending environment in Australia. This is an indication of expanding demand for microloans in Australia.*

PA2 was unequivocal about growing number of financially excluded population in Australia. She insisted that:

> *Fringe lenders are in business; they do make a profit. If there were no growth in there, I would say there is no demand. The GSM's StepUp loans and No Interest Loan Scheme (NILS) reaching over 155,000 since the beginning in 1981are instances of the growing microfinance loan demand.*

The above statement by PA2 effectively sums up the potential demand vis a vis market size. It is further elaborated in the following paragraphs.

PA1, PA2, and PA5 believed that there is potential for growth of microfinance in Australia. PA1 informed that *in 2013 alone, NAB in partnership with GSM disbursed 25,000 microloans in consumer loan space*. She, however, was less optimistic about microenterprise loans and insisted that *its demand is a bit contentious in Australia*. As an example of her pessimism about microenterprise loans, she (PA1) informed that:

> *Only 360 microenterprise loans were disbursed in 2013 by NAB, against an annual target of 3,000. The demand for microenterprise loans in Australia is about 10,000. This number, is a guesstimate and is subject to further market research.*

Similarly, PA3 was also of the view that that *lack of demand for microenterprise loans in Australia is a key obstacle to the growth of Manyrivers*. From the performances of the MFOs in providing microenterprise loans, it is hard to estimate the potential of both consumer loans and microenterprise loans in Australia. The lack of demand for microenterprise loans and overall growth of microfinance sector can be perceived from the analysis of MFOs organisational design, modus operandi, and the existing strategies being followed in Australia. These issues are further elaborated under various themes in Section 7.3.1.2.

PAI, PA2, and PA3, had a standard view that growth of fringe lending in Australia is a form of microfinance. Banks et al. (2012) and Infosys (2008) put the market size of fringe lending at AUD 800 million. Wilson (2012a) reported that the fringe lending market in Australia had an annual loan transaction of an estimated *AUD10 billion* (510), and this market was growing (WACOSS, 2011; Connolly et al., 2012; QCOSS, 2012). The views expressed by PA2 and PA5 that the flourishing fringe lending market (Ali et al., 2013; Wilson, 2004) is an indication of unmet demand for microfinance in Australia. So, the question of demand for microfinance in Australia does not appear to be contentious as suggested by PAI.

However, cost and terms of fringe lending being exploitative, it is not reckoned as microfinance in the common parlance. But from the demand perspective, it needs to be accounted for. According to PA1, PA2, and PA5, fringe lending entraps the borrowers in perpetual debt cycles and does more harm than good. All three of them viewed that despite harms being caused to the borrowers of fringe loans, the market was growing,

PA1 remarked that definitional issue was another reason that *clouded the actual size of the present and potential microfinance market in Australia*. She (PA1) argued that:

> *A lack of consistent definition made it difficult to determine the number of small and mainstream businesses sitting on the edge and that clarity was needed as to what constituted microfinance in Australia, both regarding its size and nature of loans: i.e. consumer loans, enterprise loans, and fringe lending.*

PA1 suggested:

> *A consistent definition to identify where the overlap sat with the mainstream microfinance market to determine the actual market size. A clear line of demarcation was needed to differentiate between consumer loans and enterprise loans provided in the name of microfinance by various organisations including the fringe lenders.*

Few issues emerge from the above observations in relation to the microfinance demand. These are: the purpose of microloans in Australia, modus operandi, and an inherent distrust in the micro-borrowers' ability to repay. Since, microenterprise loans are relatively larger in size, and are riskier in the absence of conventional security arrangement, PAI conceded that the banks are unwilling to lend to the microentrepreneurs for being too risky, and more so, not under its mainstream banking umbrella. This explains the reasons for a lacklustre performance of microenterprise loans of Manyrivers and NAB.

While designing microfinance operations, all the MFOs in Australia, including the wholesale microfinance provider like NAB, considered those unable to provide collaterals as un-bankable, and therefore, refused to go beyond the conventional security arrangement for providing loans.

Rutherford et al. (2013), Yunus (1983; 2006a), Fuglesang and Chandler (1993) emphasised the need for flexibility and adaptation of lending models in microfinance to drive up the demand for loans and associated services. The concept of group lending or peer pressure, inbuilt savings and insurance programmes, embedding a social development agenda in the programme design are some of the proven alternatives to conventional security arrangements and court proceedings to avert defaults (Latifee, 2001; Khandker and Samad, 2014b; Alam and Getubig, 2010). When loan repayments are made from investment incomes, and or resources generated from the system like savings and insurance products, the microentrepreneurs were found to be more at ease and confident (Yunus, 1983; Todd, 1996a).

To address the issue of uncertainty around the microfinance market size in Australia, PA1 and PA3 felt the need to undertake market research. PA1 insisted that there:

> *Was a fundamental difference between the nature of problems and the purpose of loans sought by those investing in a business or otherwise (i.e. for consumption).*

One of the interesting aspects that was clear from in-depth interviews was the presence of income-poor Australians, and their desperation to borrow. Despite this, the microfinance providers struggled to find the clients to ramp up their operation. PA3 categorically stated that:

> *Australia is not* a *demand market for microenterprise loans*. *An estimated 1 million inactive small businesses having ABNs are unable to access finances from the mainstream markets, presumably due to conventional security arrangements for borrowing.*

The above revelation by PA3 points to the inadequacy of the organisational design to package loan programmes without conventional security arrangement to tap into a cash-starved small business market. This market is essentially the upper echelon of microenterprise market called the 'missing-middle'.

Without built-in motivations and opportunity in the modus operandi, or in the overall design of microfinance organisations that enable wealth creation through participation, the generation of loan demand is expected to be low and the overall market size underexplored. This aspect is discussed with more specificity under viability of operations.

7.3.1.1.2 Consumer Loans

The above discourse makes it explicit that microfinance loans in Australia are essentially consumer loans provided to ease off the immediate need for finance by the CDFIs. Involvement of the mainstream banks like NAB, ANZ and Westpac in this sector is through their community social responsibility (CSR) window.

All the informants i.e. PA1, PA2, PA3, PA4, and PA5, viewed microfinance to be predominately consumer loans being provided by both fringe lenders and community finance organisations. Of the three microfinance loan providers, who were interviewed, NAB and GSM offer consumer loans. PA5 informed that *NAB and GSM constitutes about 70% of the total microfinance loans in Australia.* Fringe lending was not included in this estimate. Therefore, these two organisations can be safely reckoned as representatives of the Australian microfinance sector. PA2 informed that:

> *GSM has three consumer loan products i.e. NILS (i.e. no interest loan), StepUp (low-interest loan) and AddsUp (matched saving product). Rest of the microfinance providers in Australia in consumer loan space do not have such product variations.*

According to PA1 and PA2, loans from GSM (interest and fee free overdraft from NAB)) are utilised mainly to buy essential household items as part of asset creation strategy linked with

Centrelink (i.e. the Australian Government's programme under the Department of Human Services) payments under its NILS programme. The other programme called StepUp bearing subsidised interest rate has a wider scope like car repairs, buying computers, medical and dental services, etc.; the key focus being the repayment of loans on time. The eligibility criteria for loan disbursement are simple: the loan recipients are to produce the CRN (i.e. customer reference number) from the Centrelink, and repayments are linked to welfare payments similar to GSM. Therefore, the information asymmetry is practically zero. Three perspectives emerged in explaining the need and benefit of consumer loans in Australia. The perspectives are: meeting immediate credit needs, build an asset base, and transition to the mainstream market. The findings are discussed below.

PAI argued that:

> *Borrowers who were in desperate need of money would go to cash converters if they did not have that opportunity to access consumer loans from microfinance providers. This is primarily a harm minimisation act for the providers. There is a graduation opportunity that we will be looking at in future. I think the approach of the consumer focus loans was also to help entrepreneurial people, to improve their situation, and to help them escape out of the predatory environment.*

PA2, on the other hand, informed that their strategy:

> *Was around inclusion and a graduation opportunity out of poverty by overcoming temporary hardships. Consumer loans were also availed by the enterprising poor to improve their financial situation, and to avoid borrowings from predatory loan providers.*

Both PA1 and PA2 argued that the procurement of assets by small instalments built the recipients' essential household assets needed for comfort and life's quality. PAI insisted that:

> *With AUD 1000, one cannot start a business; more capital is needed. By the time one is ready with all the financial literacy and business plan, the client is closer to the main stream and needs to follow collateral and other requirements to borrow money. Consumer loans are not for building financial resilience; it is about the quality of life.*

Both PA1 and PA2 contended that consumer loans helped clients to protect their assets, and learn the skills to use financial management under a difficult situation. This, they believed was important for an entrepreneurial poor to embark into microenterprise loans of bigger sizes with more confidence.

PA1 insisted that:

> *Building an asset and learning to manage finance were essential skills to transit to mainstream borrowings that have a separate set of banking rules.*

Despite the arguments in favour of providing consumer loans by the major microfinance organisations in Australia, it might be pertinent to mention that consumer loans existed prior to the entry of the community development organisations into this space (van der Eng, 2008). The purpose was to reduce the dependency of micro-borrowers on fringe lenders. It was an easy entry without having to innovate any new approach to lending except to provide borrowers with easy instalments and lower cost of loans. The microenterprise loan segment is a recent phenomenon where the likes of Manyrivers, NAB microenterprise, and Foresters Community Finance have ventured into retrofitting the conventional security mechanisms. This space remains overly underexplored.

The predominance of consumer loans in Australia is an indication of the welfarist approach to microfinance (Bisen et al., 2012; Woller et al., 1999). It can be argued that while the immediate need for cash to mitigate hardships is served in this strategy, in the long term, this approach is self-defeating from both organisational and lending perspectives for the following reasons. These are: dependency of lending organisations on donor fund, inappropriate loan pricing, and inherent limitation of growth of loan sizes dictated by the nature of loans. The ultimate result is organisational entropy, and decay in the event of discontinuation of external funding to keep it functional.

7.3.1.1.3 Microenterprise Loans

Both NAB and Manyrivers are the leading providers of microenterprise loans in Australia. Their loans are classified as unsecured business loans. Their loan sizes range from AUD 500 to AUD 20,000 at interest rates from 9.95% to 10% for a three year on flexible repayment terms. Loans up to AUD 50,000 is also considered for those clients capable to use and repay the loans (PA1 and PA3). Though these two programmes charge interests, essentially the structure of the programmes is based on a partnership model. In this approach, loans are disbursed through a range of community linked partner organisations whose expenditures are borne by the primary funding agencies i.e. NAB and Westpac (for Manyrivers). The interests, thus charged, are credited to the funding agencies i.e. NAB and Westpac.

Microenterprise loans, being business loans, are relatively larger in size compared to consumer loans. The selection and disbursement criteria of such loans are more stringent. Three perspectives: a) credit check and initial assessment, b) business training, and c) lending principles, were used by the informants in explaining these. The findings are discussed below.

PA3 insisted that Manyrivers be called a *microenterprise development organisation*, rather than a microfinance organisation. From the information shared by PA3, it was evident that the organisation is an agent for Westpac in disbursing loans through a network of intermediaries. Manyrivers does the selection, training, mentoring and provides on-going business support to clients (Westpac, 2011). Loans are given to clients with proven evidence of cash flow and capacity to repay loans. Any person unable to meet the collateral requirement of the mainstream banks is eligible to borrow from Manyrivers. The initial assessment includes an application (information on banking and business details), introduction and confirmation, two references, followed by mentor selection and training (Manyrivers, 2015a). According to PA3*, a client is required to come up with a sound business idea and be fair dinkum.* The process of selection of the microentrepreneurs implies that anyone willing to borrow should have prior business experience.

NAB mostly follows similar policies. PA1 explained that *NAB's microenterprise loan programme is being managed through a network of partnerships with a number of organisations across Australia.* Some of the partners are New Enterprise Incentive Scheme (NEIS), Enterprise Network of Young Australians (ENYA), Business Enterprise Centres (BEC) Australia, and Indigenous Business Australia (IBA) (CSI, 2012). NAB is the primary financier, and the network partners do the job of identification, assessment, training and grooming an applicant to receive the loans. According to PA1, *an applicant needs a letter from their mentors saying that this business is ready for finance*. After the initial selection, the applicant goes through business and mentor training.

In the case of both NAB and Manyrivers, the selection process and the mentoring programme entail a long waiting period for clients. This naturally has a negative effect on demand for such loans and more so, for individuals who cannot afford to wait so long to receive a loan. The entire process for both Manyrivers and NAB automatically weeds out an applicant without prior business experience.

According to the informants from NAB and Manyrivers, in addition to a clean credit record, an applicant needs to work with a mentor for about one year before receiving any loan. For microenterprise programme of NAB, an applicant also needs to work with an approved business Centre of the Bank on *small business management, business skills and business plan development* (NAB, 2007). PA1 clarified that:

> *For setting up a business, in a country like Australia, one has to comply with a lot of business regulations. In the end, you need to understand tax regulation and the whole lot of red tape in setting up an enterprise.*

Every applicant is required to pay mentoring fees on an hourly basis. The process involves time and cost for prospective borrowers. In both the instances i.e. Manyrivers and NAB, no collateral is needed to borrow money. Both PA1 and PA3 informed that a mentor's recommendation is a prerequisite for any loan approval from both NAB and Manyrivers' microenterprise loans (NAB, 2007; Manyrivers, 2015a).

While business training is necessary, the structure of the training seemed to be generic being imparted by agents or mentors. It is like one-size-fits-all model (Laughlin and Wasson, 2005; GOA, 2014b). The continuous in-house training in the form of workshops and exchange visits, found to be effective in GB microfinancing model, do not feature in their training and mentoring designs focussing on enterprise loans. Unlike consumer loans, detailed lending principles are followed for microenterprise loans. According to PA1:

> *Loans are disbursed through credit card for any existing business, or to start a new business. Liability of the loan repayment rests with the applicant, and not with the business.*

PA3 informed that:

> *With every loan cycle, a client is eligible to apply for higher amounts of loans upon proper utilisation of previous loans and depending on his/her performances and business growth.*

The lack of demand for microenterprise loans was one of the issues that both PA1 and PA3 were worried about. PAI, insisted that:

> *Intergenerational poverty and violence have made them apathetic. They don't have the education; they can't get the heading to set up the business. There will be a portion of them, which can.*

This observation by PAI appeared to be overly simplistic as millions of poor men and women all over the world, many of them did not go to schools, or had little education, could successfully undertake microenterprise loan programmes (Alves, 2008; Fuglesang and Chandler, 1993; Njeri et al., 2013). Additionally, none of the informants (i.e. PA1, PA2, PA3, PA4, and PA5) were able to cite any research-based evidence in support of their perception regarding the apathy of the Australian income-poor, and the unbanked, to borrow money for business purposes. As a conventional banker and a microfinance wholesaler, the perception of PA1 is no different from the doubts and disbelief which Yunus (1991) confronted during the early 1970s when he approached the commercial banks to finance the illiterate and poor village men and women in Bangladesh.

The conclusion by the informants like PA1 and PA2 that the Australian microfinance market does not have an appetite for microenterprise loans is not based on any empirical research. National Australia Bank (2006) conceded that the study conducted by the Boston Consulting Group (BCG) *was unable to find any publicly available research on the potential demand for microenterprise loans in Australia* (9). The BCG depended on data generated from ABS, NAB's internal data, ANZ's financial exclusion report (ANZ, 2004b) and information from the Global Entrepreneurship Monitor Survey, and concluded that there *was an overall potential demand of 40,000 to 80,000 microenterprise loan customers in Australia (NAB, 2006: 9)*. There was no concrete action-research based on verifiable primary data on the actual target clients.

It is pertinent to mention that NAB's microenterprise loan programme, based on the BCG study, did not consider the elements of best value microfinance models categorised as institutionist in which social outcomes were not compromised while achieving the financial viability (Bisen et al., 2012; Paris, 2013; Olivares-Polanco, 2005).

It is noteworthy that in Australia, though the microenterprise loans are treated as unsecured loans, the terms and conditions of collateral-based lending are applied to microenterprise clients. The rules and procedures for loan disbursement and recovery simulate the retrofitted versions of commercial banks. Loan default by a borrower triggers a series of punitive actions shaking the fragile economic base of the clients, and may even roll on to court cases to recover the money. The lending principles of microfinance organisations are required to accommodate specific needs and priorities of targeted clientele. Any misperception and discomfort by its clients about the organisation's system and procedures can be non-conducive to the overall loan demand and performance of an organisation.

The absence of a separate system to provide business loans to the upper echelon of microenterprise clients, often termed as the missing-middle (GIZ, 2012; Sale, 2010; Yago, 2007), was found to be another important aspect in underestimating the demand for microfinance in Australia. It is evident that in Australia there is no clear range of microfinance loans. It can be as little as AUD 500 or less or can go as high as AUD 50,000. Without providing effective alternatives to building resilience and capability to generate systemic cushion in the event of loan defaults, litigation and seizure of assets tend to discourage them from approaching the banks for financial support.

Considering the three key themes: market size, consumer loans and enterprise loans, discussed through the nine perspectives, it is evident that the existing microfinance market in Australia is far below its actual potential. The microfinance schemes (both consumer loans and microenterprise loans) operated as part of CSR strategies by the leading banks are limited by their strategic goal of obtaining social legitimacy from the broader stakeholders (Dowling and Pfeffer, 1975; Ioannou et al., 2014; Suchman, 1995; Freeman et al., 2010). Extensive market research to comprehend and estimate the needs of the low-income entrepreneurial poor is clearly absent.

Microfinance social business is operated on business principles with clearly defined, and measurable social outcomes. Therefore, as part of this investigation, Section 7.3.1.2 discusses the findings from the primary sources along with the secondary information, the issues pertaining to microfinance social business in Australia, against Research Question 3 (i.e. is it possible to establish a microfinance organisation as a social business that focusses on positive social outcomes and is also financially viable?).

7.3.1.2 Microfinance as Social Business: Social Outcomes and Financial Viability

Microfinance as a social business embeds in itself the social outcomes and sustainability of an organisation in both operational and financial terms (Yunus et al., 2010; Yunus, 2009). All the informants from PA1 to PA5 were unanimous on positive socioeconomic outcomes of microfinance in Australia. However, they were sceptical about the financial viability of the Australian microfinance organisations (MFOs). Seven key themes emerged from the content analysis of interview data. These are organisational design, interest rate, modus operandi, transaction cost, legal and regulatory issues, the role of the Government, and social safety net programme (SNP). Seventeen perspectives are used here (see Table 7.4) to elaborate and explain the themes in the following sections.

Table 7.4 Key Themes and Perspectives: Microfinance as a Social Business

Social Outcomes and Financial Viability (RQ3)	
Key Themes	**Key Perspectives**
1. Organisational Design	1. Non-profit organisations 2. Charity or welfare structures
2. Interest Rate	1. Fair and affordable lending 2. Alleviation of financial distress
3. Modus Operandi	1. Clients and Loans 2. Delivery- recovery mechanism a. Group lending b. Savings programme c. Default management strategy d. Monitoring and supervision 3. Social development agenda
4. Transaction Cost	1. Cost of managing small loans 2. Population density 3. Tyranny of distance
5. Legal and Regulatory Issues	1. Role and perception of mainstream financial institutions 2. Financial regulation 3. Nature of financial market
6. Role of the Government	1. Primary catalyst 2. Important funding source
7. Safety Net Programme (SNP)	1. An essential structural necessity 2. A demotivation to being enterprising

7.3.1.2.1 Organisational Design

Organisational design of microfinance providers in Australia is explained through two critical perspectives. These are non-profit organisations, and charity or welfare structures of the microfinance providers (DOT, 2012). Except for credit unions (see Table 5.7), all microfinance providers in Australia are either non-profit organisations or were set up for charitable purposes as public benevolent institutions.

NAB is one of the key microfinance funding sources implementing its microfinance programme through a network of partner organisations.

PA1 explained that:

> *The consumer loan part in this programme is passed on to GSM as an interest-free loan that on-lends it to its clients in similar terms, through a network of partner providers. Therefore, cost recovery or viability of the programme is not intended.*

Similarly, the objective of NABs microenterprise loan programme is to find *innovative ways to provide access to entrepreneurial poor in mainstream business finance in Australia* (CSI, 2012: 3). Therefore, this programme is essentially purpose-driven, and not profit-driven, and is being operated as a window of NAB, supported by a range of partner organisations. PA1 stated that:

> *The partner organisations, selected by NAB, charge fees and service charges for providing training and mentoring services to the prospective clients as part of their induction process before recommending for loans from NAB.*

GSM, the largest microfinance organisation in Australia, and its partner agencies are companies limited by guarantee, non-profit in nature, having deductible gift recipient (DGR) status. According to PA2:

> *There is no cost recovery, and in fact, GSM is a loss-making company. The philanthropic and government contribution cover the administrative and operational overhead.*

PAI informed that:

> *NAB is the primary provider for the GSMs wholesale lending fund. GSM disburses the loans through its network of independent providers called Good Money Stores (GMS) all over the country; though about 4 GMS out of 600, was directly operated by it as on November 2014.*

In fact, GSM is an intermediary agency disbursing consumer microfinance, through a network of independent non-profit community organisations. Manyrivers, on the other hand is a microenterprise development organisation, a not-for-profit company with DGR status. It is regulated by ASIC, and the Corporations Act 2001. It is also a registered charity under ACNC Act 2012 (Manyrivers, 2015b). In its overall approach, Manyrivers does not consider viability as one of its operational objectives. PA3 informed that *Manyrivers primary purpose was to help their clients and not to make a profit.* The organisation is essentially a field agent for Westpac microenterprise loans. Its operational cost is being defrayed by financial support from Westpac, philanthropic donors and foundations, corporate partners, and Government grants. Therefore, the entire design of delivering the loan operation is non-viable.

The legal structure of Bank Australia (BA) is different from rest of the MFOs. It is a for-profit company reaching out to income poor through Fitzroy and Carlton Community Credit Cooperative (FCCCC), a window of BA. As such, it is not a dedicated microfinance organisation. PA4 argued that one of the successes of FCCCC was its inclusive nature in which some people *are earning AUD 250,000 a year, as well as those who are earning AUD 25,000 a year*. PA4 further explained that:

> *BA is operated as an authorised deposit-taking institution owned by its customers, and barred from taking deposits from the general public. But exceptions are made for the organisations or institutional clients.*

Registered with Australian Securities and Investment Commission (ASIC) BA falls under Australian Prudential Regulation Authority (APRA). PA4 emphasised that *BA's customers being its owners, the profit is reinvested to lower the cost of various financial services offered to its clients.* BA stands out differently from GSM, Manyrivers, and NABs programme. PA4 claimed that:

> *Being a customer owned bank (COB), it is more inclusive in its approach, and its profit directly benefits the customers in the form of reduced product costs and services.*

Based on market principles, BAs approach to fairness seems to hinge on a more pragmatic approach. One of the features of BA is its similarity of ownership with GB. However, the *shareholding of BA is open to poor and non-poor alike. Anyone can become its shareholder with a deposit of AUD 5* (PA4). BA does not provide any unsecured loans to its clients. Therefore, customers without conventional security are unable to avail loans from it. Compared to mainstream retail commercial banks, BA appears to be more conscientious to social agenda, and being the only member of the Global Alliance for Banking on Values (GABV) from Australia (Bankmecu, 2013), is different from many of its peers in customer owned banks (COB, 2013). It is cited here for its ownership principle as an example to establish microfinance social bank for the income poor in Australia.

The microfinance continuum in Table 5.1 and Figure 5.2 shows that none of the microfinance organisations in Australia could reach financial viability. All these organisations are structured either as the not-for-profit, or as benevolent, or charitable organisations. The nature of an organisation creates its value and purpose, gives direction and sets its mandates. The ones structured on commercial principles (i.e. some of the credit unions working in this space), showed not only financial viability but also generated socioeconomic values for their customers.

7.3.1.2.2 Microfinance Interest Rate

Microfinance interest rate has been a contentious issue since the beginning of modern microfinance movement (Rosenberg et al., 2013); Australia is also a part of this debate. Two perspectives i.e. fair and affordable lending, and alleviation of financial distress explain the overall strategies of the leading MFOs in Australia.

PA2 from GSM explained that in their strategy *financial products and services are designed below the market prices considering their clients' vulnerability and hardship.* The views of all the five informants (i.e. PA1, PA2, PA3, PA4, and PA5) resonated with Burkett and Sheehan's (2009) *fairness and affordability* (11) principles as part of the discourse on microfinance pricing in Australia. According to PA1 from NAB, providing *unsecured loans to the low-income people conflicted with their banking rules.* Therefore, NAB considers it a fair decision to operate their microfinance programme as part of their CSR strategy in supporting financially excluded low-income people in partnership with non-profit organisations.

The two microfinance programmes that NAB partnered with GSM are interest-free (i.e. NILS), and low-interest (i.e. StepUp) loans. According to PA1:

> *NILS, and StepUP programmes are intended for the people living on low incomes to access fair, safe and equitable credit for the purchase of essential goods and services, and to ease their financial distress*.

Of the three informant organisations lending microfinance, Manyrivers' principal purpose was to ensure access of the unbanked to *microenterprise loans at an affordable market rate of 10% per annum* (PA3). In this instance, affordability can be equated with fairness. While it is reasonable to consider commercial market rates as fair, affordability might have various connotations depending on the nature of loans and objectives of an organisation. On the issue of affordability, PA2 argued that:

> *Our strategy is around inclusion, and some people do not have the capacity to pay even this lowest amount (i.e. AUD 200). Our approach to consumer-focus loans was to support non-entrepreneurial individuals to improve their financial situation enabling them to get out of poverty and the predatory environment.*

It can be contended that motivation of NAB's microenterprise loans is different i.e. finding innovative ways to provide unsecured business finance. It was not designed under fairness principle, but on the principle of financial access outside their regular lending practices.

Interest being the principal revenue for any lending institution, including microfinance social business (Latifee, 2001; Rosenberg et al., 2013; Rosenberg et al., 2009), it will be remiss if this critical issue is not further elaborated here. Though consumer loans programmes run by GSM and NAB have low interests or even are interest free as part of their fairness principle, the real scenario in Australia is different. Some of the community finance organisations like Fair Finance, and Fair Loan Foundation (see Table 5.5), funded by the Government and philanthropic donations, charge interest rates as high as 35% APR (Annual Percentage Rate), which means that the actual cost of loan is higher when payments are shortened, and staggered over the loan tenure (Celec, 1981).

It may be noted that the fine line between microfinance, and the fringe lenders in Australia is the predatory or exploitative lending practices. National Australia Bank (NAB) calculated a break-even interest rate of 28.25% inclusive of fees and charges (NAB, 2008). The cost components i.e. both fixed and variables, directly affect the estimation of interest rate.

Any form of subsidy that perpetuates dependency is a by-product of inequity *which is arguably socially constructed* (Wilson, 2012b: 7). This argument is similar to the assertion of Yunus (2008) that:

> *Poverty is created by the institutions that we have built, the concepts we have developed by policies borne out of our reasoning and theoretical framework* (2).

The conflict between compassion to help the disadvantaged and charging costs for providing the service is the key deterrent to approaching the financial inclusion strategy in Australia in a sustainable way. Sustainable microfinance operation requires embedding the business principles in delivering the services (Yunus, 2006a; 2009). The continuous dependency of the MFOs on government grants and other forms of donations is akin to a form of charity. Wilson (2012a) argued that *a lack of access to credit cannot be addressed through increased welfare or charitable handouts* (514). Therefore, appropriate, and affordable interest rate is critical. Yunus (2006a) suggested the cost of loans be *within 5 to 10 percentage points above the* *commercial rate* (21). Mitra (2009) suggested while discussing the Grameen Bank model (GBM), that a microfinance organisation:

> *Should not add a margin beyond 15% including interest and other charges over the cost of fund. Anyone going over this has just left the microcredit area and joined the loan-shark area* (87).

Given the preceding, taking a clue from Yunus's (2006a) suggestion on appropriate microfinance interest rate for Australia, the following formula of the current researcher might be useful in deciding a reasonable interest rate for microfinance products.

The commercial lending rates for small business by the mainstream banks in Australia range between 4% to 19.75 % excluding fees and charges (RBA, 2016). The rates are variable, and loans are secured against residential or other forms of mortgages. Considering a default rate of 5%, the lending rate can be adjusted by providing for the unrecovered principal and interest as per the following equation:

$$Pi = \frac{(1+Bi)-(1-Di)}{Rpi}$$

$$Pi = Proposed\ Interest\ Rate$$

$$Bi\ = Base\ Interest\ Rate$$

$$Di = Default\ Rate$$

$$Rpi = Expected\ Recoverey\ Rate\ of\ Principal\ and\ Interest$$

The illustration of calculating a proposed interest rate assuming a certain default rate is furnished below.

> A loan with a Bi of 15% and a Di of 5%, the Pi will be 21.05% per annum, and this will cover the cost of both principal and interest defaults.

$$Pi = \frac{(1+.15)-(1-.05)}{.95} \text{ Or } Pi = \frac{1.15-0.95}{0.95} \text{ Or } Pi = \frac{0.2}{0.95} \text{ Or } Pi = 21.05\%$$

> Pi will be 33% assuming a 20% Bi, and a 10% Di.

The rate fixation may be kept variable on an annual basis to adjust with the weighted recovery performance of a lending organisation. With the increase of loan outstanding and a proportionate decrease in fixed cost per head, the base interest rate may be gradually reduced to pass on the benefit to borrowers. The above formula might be compared with that of NAB's break-even interest rate of 28.5% to determine the market compatible loan pricing for microfinance, keeping in view the portfolio quality measured by recovery performance. In the proposed formula, mentioned above, a good loan repayment index or lower default rate will reduce the cost of the loan for borrowers with the resultant increase in their revenue.

Microfinancing in Australia to be viable needs to have a paradigm shift in its approach. The principle of fairness needs to be measured against opportunities that others get in this sector. Any attempt to treat it in charity or welfare space may lead to the wrong strategy, and instead of solving the issue of financial exclusion, might, in fact, perpetuate it.

7.3.1.2.3. Modus Operandi

The nature and purpose of an organisation shape its modus operandi. Despite high interests charged by many microfinance organizations (MFOs) in Australia, they have failed to attain financial viability. The modus operandi determines not only the best way to deliver the services, but also to conduct the business by motivating customers, holding them to their commitments, and building a mutually reciprocating relationship between clients and organisations. This particular theme is discussed here from three perspectives: clients and loans, delivery-recovery mechanism, and social development agenda.

A client is central to any business or activity of selling goods or services. The number of clients, large or small, has a direct impact on the viability of any operation. Microfinance is no exception. Despite a significant number of low-income and financially excluded people (ABS, 2014a; Saunders et al., 2014; Connolly, 2014b), both PA1 and PA3 deplored the dearth of clients for their microenterprise loans. This may be attributed, among others, to the process of determining clients and packaging loans for them.

Depending on the nature of purpose, clients and loans are different, including the terms and conditions under which loans are provided. According to PA2, there are two categories of customers: *those who borrow to meet their immediate household needs i.e. to avoid hardships, and those requiring business finance*.

The clients' identification process for consumer loans i.e. the first category of borrowers is straightforward. For GSM and NAB, anyone having a healthcare card, or a pension concession card, or is on a low income, receiving Centrelink support, are considered eligible for this loan. For this category of borrowers, no training is needed to avail loans. This process applies to all microfinance operators disbursing consumer loans in Australia.

For microenterprise or business loans, clients are primarily the micro to small businesses unable to comply with initial collateral requirements of the mainstream financial institutions. Both NAB and Manyrivers commenced their operation in microenterprise programme since 2007 (CSI, 2012). In all these years, a cumulative number of 1516 clients (NAB 866 and Manyrivers 650) were serviced by NAB and Manyrivers. The cumulative amount disbursed by the two organisations was *AUD16.8 million i.e. NAB AUD13.2 million* (CSI, 2012: 9) and *Manyrivers AUD3.6 million respectively* (PA3). Despite about *one million micro to small businesses remaining inactive with ABN numbers* (PA3), the slow uptake of clients might be attributed mainly to clients' selection criteria, and as well the operational design which is a part of the delivery recovery mechanism of an MFO.

During the semi-structured interviews with the informants, delivery-recovery mechanism of the Australian MFOs was discussed at length. Under this perspective, the issues like group lending, savings programme, default management strategy, and monitoring and supervision were specifically raised. These issues are considered cardinal in the overall performance and quality of microfinance operations in countries including Bangladesh, where micro-borrowers were unable to provide conventional asset-backed collateral.

Group lending is essentially a strategy of financing in which an individual is given the loan with the consent of rest of the group members as a part of peer endorsement. PA2 asserted that she did not see an *appetite for this in community organisations and with people in Australia.* She was referring to consumer loans being disbursed by GSM. When confronted with the question of group lending being successful in the USA, she alluded to cultural differences between clients in the USA with that of Australia, and argued that NILS that disburses no-interest loans was an alternative to group lending. PA2 argued that the Australian privacy act prohibits information sharing, and one *could feel coerced and might say that she/he was doing that because of her/his vulnerability*. PA2 considered this *as an ethical issue.* In a similar vein, PA1 insisted that:

> *Regulation was a big hurdle in group lending. She mentioned of difficulties in information sharing even with the community partners that NAB was working with.*

PA1 argued that *there is a cultural issue in being reticent about group lending in Australia.* On successful group-based microfinance by Grameen America (GA) in the USA, PA1 remarked that:

> *The Americans, despite privacy law, is culturally more open than the Australians in matters to money*. An *attempt to group-based lending with the Indigenous Australians did not work.*

She (PA1), however, suggested that *group lending might work among some of the immigrants in Australia*. PA3 was outright in negating group lending in their operation. He provided no reason for it. PA5 held the same view like others on the issue of group lending.

Group lending is often confused with joint liability or group guarantee for loan repayment. It is, in fact, an individual loan recipient is solely responsible for repaying her/his loans (Yunus, 2005). The immediate purpose is to ensure peer pressure and peer monitoring in loan utilisation and compliance with the lending principles. In the words of Naveen (2012):

> *The groups are organized, owned, operated, and controlled by the members based on solidarity, reciprocity, common interest, and resource pooling* (1)

This process of lending to the economically vulnerable population through self-regulating solidarity groups help in *building social capital by developing a framework of common values and beliefs* (Rankin, 2002: 3*)* that *can become a moral resource* (Putnam, 1993: 169), enabling them to harness the common goods which otherwise would be difficult to achieve at an individual level. This type of lending is considered an integral and essential feature of microfinance as part of mitigating information asymmetry, and as well to build social capital (Sinn, 2013; Besley and Coate, 1995; Stiglitz, 1990).

It was clear from the discussions with the informants that there is an entrenched institutional anathema against group lending. None of the sources provided concrete evidence of any group lending design, actually implemented or attempted in Australia, to understand its inappropriateness in the Australian context.

It is pertinent to mention here, that group lending is a critical component for asset building, and as well, a powerful social-collateral (Postelnicu et al., 2013; Cassar et al., 2007) as part of repayment guarantee. The unwillingness of banks and the microfinance institutions to include group lending in their programme designs in Australia might have been influenced by the absence of information asymmetry while providing consumer loans with tie-up arrangements with Centrelink payments. Consumer lending being the dominant microfinance product (i.e. more than 90%) in Australia, had a natural sway in the programme design. The issue of poverty alleviation through microenterprise loans by generating self-employment is not the overriding theme of microfinancing in Australian. It is more to do with fair and affordable lending (Burkett and Sheehan, 2009; Connolly, 2014b; Kempson et al., 2000).

NAB is by far the largest microenterprise loan provider in Australia, and its underlying purpose is to induct the successful micro-entrepreneurs to its mainstream banking (NAB, 2006). The purpose is similar to Manyrivers, described by PA3 *as a microenterprise development organisation.* None of these two programmes i.e. NAB and Manyrivers are concerned about financial viability. Being CSR initiatives, the programme designs are intrinsically unsustainable.

Similar to Australia, instances of individual microenterprise lending programmes are found in Russia, Kazakhstan and Bosnia, Peru, El Salvador, Bolivia, and Uganda. For securing high repayment rates, these programmes resorted to collaterals, and practically bypassed the poor, and focussed on relatively wealthy clients (Churchill, 1999; Zeitinger, 1996; de Aghion and Morduch, 2000). Australian unsecured microenterprise programmes like Manyrivers and NAB are designed to finance relatively secured and established businesses and resort to court cases in the event of loan defaults to recover loans (PA1 and PA3). These programmes are neither financially viable nor can reach out to low-income individuals who are unable to provide a business experience or a steady cash flow.

Savings programme, under delivery-recovery mechanism, is embedded as a critical component for self-reliance, repayment performance and institutional sustainability of microfinance organisations (Atkinson et al., 2013; Ageba and Amha, 2006; Dowla and Alamgir, 2003). All the informants had unanimity about the savings being useful for low-income individuals to tide over hardship, and contributing towards gaining financial independence of clientele. However, none of the organisations like GSM, NAB, and Manyrivers has a saving programme in their microfinance operation. AddsUp programme (not a microfinance initiative) of GSM, in partnership with NAB, encourages savings by matched contribution up to AUD 500 to motivate the successful NILS clients to save and gain financial independence. There is no evidence that this programme has any impact on the intended outcome. Some smaller programmes like Savings and Loan Circles (unincorporated entities), SaverPlus, (a project of Brotherhood of St Laurence and ANZ Bank) initiated savings programmes as part of encouraging financial independence and self-reliance (Burkett and Sheehan, 2009).

One of the reasons for non-profit microfinance organisations in Australia for their indifference to saving mobilisation might be attributed to regulatory hurdles. As per the Australian financial regulation, only the authorised deposit taking institutions (ADIs) are allowed to mobilise savings or collect deposits to be used for loans. However, according to PA1 *there is a lack of motivation to save by microfinance client*s. PA3 argued that motivation to save by the Australians:

> *Is tampered down by the Australian welfare system that provides a cushion for the low-income people during their financial hardship*.

Though, the above argument partially explains the motivational aspect of savings; the systemic side is overlooked in this perspective. The savings generated through the systemic process of lending, an avowed goal of building assets for the poor (Yunus, 1983; Isa, 1992; Etzensperger, 2014), is ignored here.

The motivations to save by people on low income and those in the higher income brackets are different. The poor find it difficult to save due to continuous income-deficit experienced in everyday living. Their meagre savings are quickly dissipated due to income smoothening (Duesenberry, 1949). Therefore, savings for the income-poor as part of their asset building process is to be driven by systemic process (Yunus, 1983; Isa, 1992) unlike the economically well-off individuals whose savings are largely the function of their levels of incomes, personal lifestyle choices, and for covering future uncertainties (Davis and Schumm, 1987; Harris et al., 1999; Carroll and Samwick, 1998).

From the perspective of financial independence of lending institutions, savings play a critical role as well (Yunus, 1991a). To overcome regulatory barriers to savings, instances of transforming or changing the legal structure of organisations were considered strategic options. Ledgerwood and White (2006) argued that:

> *The single most important point that is transforming MFIs must understand that successful mobilization of savings from the public, including from a large number of low-income people, changes the institution (but not its mission) profoundly and*

irreversibly. Only financial institutions that are prepared for such change should open public savings facilities (3).

One of the ways many microfinance organisations bypassed this regulatory barrier to savings was to transform the organisations into credit union structures. Traditional Credit Union, and First Nations Australian Credit Union, formed by the relatively poor Australians do mobilise savings for loan operation among the members. With the ability to mobilise savings, these organisations have a better prospect to be financially self-sustaining.

Default management strategy (DMS) in microfinance implies the process-driven recourse to ensure on-time loan repayments by clients. The concept of small instalments, peer support, peer monitoring, in-built savings, and insurance programmes are some of the standards and proven best value principles in preventing and managing defaults (ACCION, 2008; de Aghion, 1999). These are in addition to training, monitoring and supervision activities by the lending organisations.

According to PA1, PA2, and PA3 the default rates in consumer microfinance in Australia is low. This high recovery can be attributed to the direct debit through Centrepay i.e. a bill paying service devised by Centrelink with a repayment tenure of 12 to 18 months. As such, *the recovery is above 90%* (PA2). In the event of any default, they continue to pursue repayments until loans are fully repaid. In the absence of savings and insurance products for borrowers, overdue or unpaid loans are adjusted through continuous follow-up, or in the event of death; written off (PA1 and PA2). The loan terms are almost similar among other smaller consumer loans providers.

The DMS for microenterprise loans is different in Australia. The criteria for microenterprise loans by both NAB and Manyrivers are such that very low-income people are automatically excluded from the selection. These unsecured loans have a tenure of 3 years and are recovered on agreed repayment plans. A continuous mentoring by paid intermediaries are embedded into the system, and in the event of default, court cases are initiated (PA1 and PA3). With a small number of borrowers, NAB had a relatively higher past due loan of *about 20%* (CSI, 2012: 10). This default percentage is high when compared with successful microfinance organisations in the space of microenterprise loans. Manyrivers' performance in its microenterprise loan programme is more dismal. PA3 stated the *loan recovery percentage of Manyrivers to be about 90%*. However, from the evaluation report of Deloitte (2014b) the survival rate of the microenterprise businesses financed by Manyrivers was 67% out of a total of 615 since its commencement in 2007. In essence, the company did not have any DMS to prevent failures of loan repayment with the consequential fatality of the businesses it financed.

Monitoring and supervision are critical in ensuring overall quality and programme outcomes in a microfinance organisation (BCBS, 2010; Rosenberg, 2006). PA1, PA2, and PA3 informed of the cloud-based monitoring system in place to track the loan repayment history of clients. According to PA1, *microenterprise loans are monitored directly from NAB's data platform.* Both PA2 and PA3 use Customer Relationship Management (Winer, 2001) tool to monitor and review the loan books from time to time.

Analysing the information shared by PA1, PA2, and PA3, it is evident that none of the microfinance monitoring systems that are currently in place in NAB, GSM, and Manyrivers, are interactive in nature, capable of measuring the management quality, loan quality and operational quality of the programmes. The existing monitoring systems in these organisations are in the form of general scrutiny by a team member depending on the nature of loan programme, and the credit cycle supported by the information available in the cloud-based platform to track the progress of loans and customers.

All the informants emphasised periodic field level physical supervision to see usages of loans and problems their customers are encountering in loan utilisation, and loan impacts. PA3 stated that *Manyrivers used professional M&E organisations to help monitor their loan activities*. It was, however, unclear as to the mechanism and efficacy of engaging an outside organisation to monitor the company's internal operation. It seemed more like post-auditing instead of an ongoing iterative monitoring system to track the overall operational quality.

None of the microfinance organisations in Australia has integrated monitoring and evaluation systems embedded into their institutional strategies. The bulk of loans in Australia being consumer loans, the number and complexity of loans and their purposes, compared to that of developing countries, are less baffling. The monitoring and evaluation of loan programmes, including effective on-going monitoring regime, are critical to not only for ensuring the quality of operation but also to deliver the programme outcomes. The overall viability of a microfinance organisation, depends among others, on an effective monitoring and evaluation regime capable of tracking down the performance of every single loan. The system is required to be integrated with an organisation's operational and financial performances. Due to the current nature of Australian microfinance organisations, the system of monitoring and evaluation is yet to attain that level of sophistication.

The perspective of Social Development Agenda (SDA) came up on the question of reinforcing the benefit of impacts in the life of microfinance clientele. SDA is an integral component of the credit delivery in the GB model. It is essentially a set of decisions that clients decide together for their own social and economic benefits (Fuglesang and Chandler, 1993; Yunus, 1991a).

PA1, PA2, PA3, and PA5 agreed to the consequence of financial exclusion (Connolly et al., 2011; CSI, 2014) resulting in social exclusion (Kostenko et al., 2009; Wilson, 2012b), but cited that the privacy act (GOA, 1988; OAIC, 2014) and social ethos did not permit imposition of any rules, or preconditions that might be an attempt to alter their social behaviour, or entrenched ways of doing things.Therefore, none of the microfinance programmes in Australia have any component in their programme designs complementing the lending programme to enhance and reinforce social wellbeing.

The essence of social development agenda was explained to the informants as a set of self-adopted decisions by microfinance clients in conducting their social activities to avoid negative impact on their loan utilisation and socioeconomic outcomes. In response, PA2 argued that *the Australians are very private in their social behaviour and any attempt to influence their personal lives might be counterproductive*.

The microfinance in Australia is structured on one-to-one personal lending principles. Social development agenda that requires institutional compliance to the specific code of conducts with positive motivational, or behavioural changes towards faster social and economic empowerment is not factored into the operational design in Australian microfinance organisations. Group-based microfinance has better scope to implement the social development agenda like the *16 Decisions* of GB (see Appendix 8) model in Bangladesh (Holcombe, 1995; Fuglesang and Chandler, 1993: 121).

7.3.1.2.4 Transaction Cost

The informants used three perspectives in elaborating the transaction cost in Australian microfinancing. These are, cost of managing small loans, population density, and tyranny of distance. All the three perspectives are mutually interrelated when it comes to the question of viability of a microfinance operation.

One of the key arguments of the informants (PA1, PA2, PA3, and PA5) was the cost of loans. According to PA1:

> *Even with a market cost to a microloan, it is difficult to defray expenses of employees working in disbursing and collecting loans in addition to the cost of supervision to ensure timely loan repayments in small instalments. Tiny loans do not add up to generate the income necessary to support a well-functioning loan operation.*

Therefore, PA1 reasoned that *NAB did not directly conduct microfinance consumer loans; GSM does it as a partner for them*. However, PA1 insisted that:

> *The microenterprise loans did not have enough volume to sustain its independent operation. Accordingly, NAB deployed intermediary agencies or partners to implement the programme as a component of its financial inclusion strategy for micro to small businesses under a mentoring programme.*

A similar approach is adopted by Westpac that operates its microenterprise lending programme in partnership with Manyrivers.

Though, cloud-based monitoring drastically shredded supervision cost of microloans in successful microfinance organisations (SIDBI, 2011; Alam, 2013), the overall volume of loans that Australian MFOs could disburse fell short of the minimum break-even thresholds. The dependency of the MFOs on grants and funding partners including their organisational ethics do not seem to provide any motivation to reduce cost or to reorganise the operation to be self-reliant.

Population density relative to the size of Australia was cited by all the informants (i.e. PA1, PA2, PA3, and PA5), save BA, as a factor in reaching out cost effectively. PA3 argued that *lack of number in addition to the tyranny of distance made it cost prohibitive for microfinance operations in Australia*. However, the clustering of Australian population in different locations partially dislodge the argument of lack of population density and tyranny of distance. About *87% Australians live in urban areas, and 64% in the capital cities* (Hugo, 2012: 75), and 80% Australian poverty is concentrated in three states i.e. New South Wales, Victoria, and Queensland (Saunders and Wong, 2014; ABS, 2012a). Therefore, the argument of population density does not seem to hold strongly as a perspective in explaining the high transaction cost issue. However, the poverty in the outer regional areas, mostly among the Aboriginal and Torres Strait Islanders, who comprise about 3% of the Australian population (ABS, 2014a) with high percentage of unemployment, deprivation and exclusion (SCRGSP, 2014; McLachlan et al., 2013; ABS, 2013), may be expensive to reach out considering the distance from the town centers and the state capitals. The tyranny of distance, and the cost associated with it, as cited by the informants, are dependent on the use of information and communication technology (ICT). Microfinance institutions all over the world are now using cloud-based technology and on-line real-time monitoring to minimise the cost of outreach and supervision (Yousif et al., 2011; Nestor and Edelstein, 2011; Hossain and Ahmed, 2012).

7.3.1.2.5 Legal and Regulatory Issues

This particular theme was discussed from three perspectives: role and perception of mainstream financial institutions, financial regulation, and the nature of Australian financial market.

In Australia, besides the Government grants to the Community Development Financial Institutions (CDFI), major banks like NAB, Westpac, Commonwealth, and ANZ have their community finance programmes as part of their CSR strategy to mitigate financial exclusion. PA1 informed that:

> *The mainstream banks do not go there in a commercial sense. You cannot make money out of the small loans in a commercial way without disadvantaging the consumers. The economics of it just do not stack up.*

According to PA1*, at subsidised, or without charging any interest, these operations are financially unviable*. To achieve financial self-sustainability *one has to adopt predatory lending practices,* and argued (PA1) that:

> *It costs the same amount to process a loan of a AUD1000 as it does to process a loan of AUD50,000 in terms of administrative burden, and that is a fundamental part of the problem. So, I think, they are the two pieces that make it very hard to kind of grow this.*

PAI defended the mainstream financial institutions' engagement strategy in microfinance space in the following words:

> *Microfinancing falls within the purview of the Department of Social Service; more to do with social impacts; a broader issue of alleviation of distress or financial exclusion through fair and affordable financial services*.

PAI further elaborated that:

> *The viability of microloan operation, and all the associated arrangements around it, are in the domain of financial system that has regulatory barriers under prudential regulation requiring safety standards for the banks and the depositors.*

PA3 from Manyrivers also underscored the compliance requirements including statutory reserves and a lot of legal barriers in the event of running a microenterprise programme in Australia. With the ease of accessing finance to carry out microenterprise loan operations, he considered it *prudent to avoid being scrutinised and be subjected to various obligations under prudential regulations.*

Citing NAB's involvement in Australia's financial inclusion strategy, PA1 argued that:

> *The roles being played by mainstream financial institutions in supporting the CDFIs, and the specially created non-profit microfinance organisations were appropriate.*

PA2 from GSM spoke of the legal and regulatory barriers to setting up microfinance institutions that are capable of mobilising deposits and savings like GB in Bangladesh. She, however, cited the example of Fitzroy Credit Cooperative, now a part of Bank Australia (BA), where low-income Australians are also members.

While the existing financial system is geared towards serving the non-poor Australians, the scope to organise microfinance through credit union structure merits some investigation. In Australia, credit unions being ADIs, and regulated by APRA, are eligible to take deposits from its members. Considering the veracity of credit unions in supporting low-income communities, United Kingdom relaxed many of the regulatory restrictions on credit unions in Britain. According to Wright (2013):

> *The new regulation permits credit unions to have a broader scope to borrow money from sources beyond a few authorised banks and credit unions. The regulation further allowed them to extend services to businesses, social enterprises, and community groups in addition to offering interest on savings, charging for additional services* (12).

This step by the UK government gave an immediate boost to mobilising deposits for loanable funds for sustainable operation.

It is evident from the preceding findings and discussion that in the existing regulatory framework of Australian financial market, there is no provision that addresses the need of income-poor who are unable to provide any collateral or security as required under Australian prudential regulations. On the question of creating a separate financial institution that may have the possibility of encroaching on the commercial banks' target market, the mainstream banks might resist that to happen. PAI was quite candid about it when she conceded that:

> The *bottom part of commercial banks target market is very profitable. The government can carve that out, and one of the key issues will be that we as the bank will lobby never to have that carved out. Because, we make money out of it.*

The above statement from PAI is quite revealing. It reconfirmed the apprehension in the financial system inquiry report (COA, 2014d) of uneven competition, choking innovation, and compromising customers' interests (Read, 2014) in the Australian financial system. Continuation of the *four pillars policy* (Harper, 2000: 67) is a deterrent to alternative regulatory support towards establishing self-sustaining microfinance organisations with specific social and economic outcomes.

7.3.1.2.6 Role of the Government

Australian Government's role is discussed here from the perspectives of its participation as a primary catalyst, and also an important funding source for microfinance in Australia. As a catalyst, its role is multiple: providing legal and policy support in promoting self-sustaining organisations, ensuring an enabling environment for individuals and corporate participation in financial inclusion space, and to act as a watchdog, for fair play and fair outcomes. The second perspective i.e. an important funding source is pretty straight forward. The findings are discussed below.

PA1, PA2, PA3, and PA4, were in agreement on the importance of an ongoing intervention by the Government; be it in policy aspect, or complementing the individual and corporate efforts in creating access to opportunities for the financially excluded population.

PA2 argued that *there is a fine line between microfinance and fringe lenders, in which the government has a clear role to play in regulating the exploitative cost of loans*. Some of the

States (i.e. NSW, ACT, Victoria, and Queensland) capped the rates at 48% to discourage microloans to be too exploitative (Burkett and Sheehan, 2009) but more needs to be done to avoid the legal loopholes (NAB, 2008a; Howell, 2009).

PA4 was critical of the general unfairness in regulatory practices favouring the big banks. He (PA4) argued that:

> *The government, as a watchdog and a facilitator, can provide legal and regulatory support in unbinding the ADIs like the COBs enabling them to provide credit and banking services beyond their members. This would help in creating fairer playing ground in the financial market in generating more market share, create resources to expand the outreach of the COBs deep into the lower-income segments of the population*.

On the issue of a separate banking system for the poor like GB in Bangladesh, PA2 and PA4 underscored the Government's political will to drive appropriate legislation. Conceding the relevance of such an institution in Australia, PAI was of the opinion that *the existing financial system does not permit GB type operation in Australia.* There is an apparent lack of urgency from the existing microfinance organisations like Manyrivers, GSM or even other smaller players in the market to push for appropriate legislation to establish such banks. This might be attributed to two factors: the nature of the organisations (i.e. charity and philanthropic), and availability of grants and interest-free loans for their continued operation. In 2014 alone, Australian charities reported a total income of *AUD 103.4 billion including a government grant of AUD 42 billion (Cortis et al., 2015).* The programmes and organisations represented by PA1, PA2 and PA3, are all recipients of Government grants. In fact, most of the microfinance organisations categorised as CDFIs receive grants from the Australian Government. PAI explained the Government's support *as part of its efforts to promote social enterprises towards building impact investment.* Addis et al. (2013) defined impact investment as a strategy:

> *To achieve a financial return, and generate positive outcomes for society* (2) *and solving entrenched social issues and creating sustainable solutions* (8).

PA2 informed that:

> *GSM is considering to invest in areas not necessarily for the poor, but that are potential sources of profits to offset the losses being incurred by its microfinance activities.*

The proposed strategy of GSM seems to be an option to reduce dependency on grants and donations. The availability of free money to initiate revenue generating enterprises or investments might not be easy. The profit maximising businesses with CSR activities might find it against their interest. The grants and donations funded impact investment strategy has the potential to be in conflict with the existing Competition and Consumer Act (COA, 2012a; COA, 2012b) facilitating the promotion of fairness and equal playing field in the market.

The matrix of involvement by the Australian Government, both as a catalyst and a financier, is primarily driven by the core objectives of finding innovative solutions to self-sustaining enterprises with businesslike solutions to socioeconomic problems in which financial inclusion is an important component. As a welfare economy, operating on free market principles, catalytic role of the Government extends beyond providing social security and welfare payments to the struggling population. The increasing inequality, despite an expanding economy with a comprehensive SNP, is suggestive of systemic issues (Cox, 2014). To be specific, the way Australian social enterprises like GSM and Manyrivers, are legally structured, do not prioritise financial self-reliance as one of the key strategies. The inclusive nature of social enterprises needs to incorporate self-sustainability as one of their operational objectives. The Government, in its role, is able to enforce this condition in their funding and partnership model.

All the informants, while explaining the efficacies of their approaches in financial inclusion strategy, were appreciative of the Government's support within the existing legal and regulatory framework. It was also clear that key players like the four major banks in Australia would prefer to operate in microfinance space on their terms and resist any regulation that may encroach on their market share or diminish their prevailing dominance in the banking sphere. Therefore, the role of the Government with all its resources and capabilities (including legal and policy issues) need to search for solutions beyond the conventional welfarist model without compromising the social outcomes.

7.3.1.2.7 The Safety Net Programme (SNP)

Two perspectives were used by the informants to discuss SNP in relation to microfinancing in Australia. These are, an essential structural necessity, and the demotivation from being enterprising.

All the microfinance practitioners among the informants, and PA5 from the AFIN were unanimous that SNP is an integral part of an economic system where equality of opportunity is hard to achieve without some form of state intervention. PA1 viewed *SNP as a temporary measure to ease hardship for the people in financial difficulties, and not an alternative to self-reliance*. PA1tacitly underscored the need for SNP in Australia, and more so, *for those who are unable to participate in active jobs because of disability.* However, PAI was *emphatic in self-reliance and job creation as pathways to prevent poverty,* and cited the Government's NEIS (New Enterprise Incentive Scheme) as an important contributing partner in NAB's microenterprise programme. Informants PA2 and PA5 considered SNP beneficial for the poor and advocated for a well-functioning SNP in Australia.

The perspective of demotivation from being self-reliant through microenterprise loans was seen as an important factor for the lack of demand in Australia by the informant PA3. He was critical of SNP, and described SNP *as a poison; people get paid whether or not they are in work or out of it. It kills demand*. PA3 emphasised the need for a structural change of the existing welfare system. He argued that a *relatively better demand for microfinance in the USA was due to a less ubiquitous welfare system there*. PA2 on the other hand, did not consider SNP as a barrier to the demand or growth of microfinance. On the contrary, she deplored that *banks exclude people because they receive income support*. PA2 argued that *for the low-income people, SNP is the safest form of income.*

Divergent views, verging on contradictions, by the informants on SNP's impact on microfinancing, might be attributed to the ideological position of their organisations, and the strategy that each of them pursues to conduct microfinance activities. One of the premises on which PA2 advocated the continuation of SNP is due to the reliance on the Centrelink payment for consumer loans provided by GSM to its borrowers. She (PA2) asserted that:

> *Ninety-nine per cent* people *on Centrelink support understand the purpose of their loans, and did not want to stay on it. One per cent is an exception, rather than the rule*.

Challenged with a demand deficit for microenterprise loans by Manyrivers, PA3 found SNP an easy punching pad for its failure to expand its market. It may be noted that criteria for loans from Manyrivers and NAB microenterprise lending programmes automatically weed out the poor who are unable to provide a clean cash flow, prior business experience, and their ability to undergo on fee-paid mentoring programmes before accessing the loans. The microenterprise borrowers' profiles, as evidenced by the selection and lending criteria of microenterprise loans of both NAB and Manyrivers, did not show any connection between lack of demand for loans and the unwillingness of target clientele to borrow due to the influence of SNP. Rather, it can also be argued that SNP being an alternative source of income during hard times, might enable a microentrepreneur to cushion any financial eventuality due to seasonal variations or loss in the business. This, however, needs to be synchronised with the rules and procedures of Centrelink support to the income-poor.

7.4 Conclusion

Data from primary sources conform to the information, gleaned from the extant literature regarding the existence of a large segment of the Australian population to be financially excluded. The growing fringe market also testifies to this exclusion. Only a tiny fraction, as small as 5%, of the financially excluded population, is being supported by the microfinance organisations (MFOs). Both primary and secondary data reveal that necessary institutional arrangement, including legal and regulatory supports are absent for taking advantage of this market, estimated at 17% or 3.04 million (Connolly, 2014b) of the financially excluded, or 30.23%, or 3.49 million of the total labour force on low-incomes (ABS, 2014a).

The predominance of consumer loan for the purchase of white goods is the dominant microfinance product. It constitutes more than 90% of the Australian microfinance. Borrowers of consumer loans are recipients of Newstart allowances from the Centrelink and include people in vulnerable groups with multiple disabilities (SCACS, 2014; Burkett, 2013; Bank et al., 2015). While the impact of such loans is empirically verified and positive, no evidence suggests that this strategy provides any permanent solution to the endemic shortage of income, or access to loans and financial services, as and when needed.

Lack of demand, as stated by a few microfinance practitioners, is enigmatic when a large number of micro to small businesses are remaining unfunded. The demand deficit in microenterprise loans that some of the practitioners have suggested can be attributed to the nature of Australian MFOs and their modus operandi. Though, microenterprise loans of Manyrivers and NAB are termed as unsecured business loans, the modus operandi and the default management strategy (DMS) being followed by the practitioners are not different from conventional lending approaches. The self-financed mentoring requirement, prior business experience with a proven evidence of cash flow, and references by a third party about an applicant's ability to service debts can be reckoned as features of a retrofitted version of an individual lending model which most of the asset-less individuals find difficult to comply.

MFOs in Australia fall short of the best-value examples of institutional designs refined by Grameen Bank (GB), and its adapted versions being replicated globally. Information generated from both primary and secondary data are ubiquitous that MFOs in Australia are all non-profit and charitable organisations. The welfarist approach to microfinancing is the underpinning theme of their overall strategy. Their objectives and ethics do not incorporate financial viability as one of the abiding principles. Fairness and affordability are stated to be the key ethical precepts defining Australian microfinancing market, especially for the consumer loans.

This study further reveals that the underlying ethical principles of fairness and affordability are compromised by many of the CDFIs charging interest rates as highs as 35% APR. Many of them charge additional fees as well. The decision to charge, or not to charge any cost/ interest on loans does not follow any guideline that could be related to any strategic purpose of an MFO in Australia.

A comprehensive SNP in Australia, cited by one of the practitioners as a dampener for loan demand might have practical reasons on the premise that for the lowest echelon of income-poor individuals, welfare payments constitute one of the essential sources of cash flow to complement their monthly budget deficits. This segment of the Australian population might not have enough motivation to forgo welfare support in lieu of earning marginal incomes from investing in microloans. This situation merits policy promulgation for the microenterprise borrowers by not stopping welfare payments in proportion to their revenue earnings from investments. Rather, a motivational support similar to non-interest bearing recoverable matching grant, proportionate to the welfare payments up to a certain amount of the revenue earned from microenterprise investments through the relevant microfinance organisation(s), might define a self-employment pathway for many low-income welfare dependent enterprising individuals. More empirical research on SNP and its effect on microenterprise financing might help in finding effective policy options to enforce mutual accountability in promoting financial self-reliance. This, however, does not apply to the consumer loans in microfinancing that is essentially a repayment guarantee to lending institutions by the Centrelink.

The assumptions that vastness of Australia, low population density, and small loans sizes are cost-prohibitive in scaling up the microfinance operation appears to lack credence considering the pattern of population settlement in clusters within the major cities including the availability of cloud-based technology for real-time monitoring. Since, loan outstanding is one of the prime determinants in the economy of scale for a financial institution, and many microfinance organisations often fail to achieve optimum outstanding level to achieve break-even performance, Australian MFOs relented on the issue of financial viability.

It, however, merits mentioning here that loan sizes of microenterprises depend on the nature of an investment, and not on any standard fit-all figures. Therefore, the economic conditions, and a composite price index in a region or a country are reckoned in deciding the optimum amount of microenterprise loans for an individual borrower to embark on an income generation or self-employment. With a charity model of microfinancing, this aspect of microenterprise lending is found to be ignored in microfinance market in Australia.

Additionally, microfinance as a social business is virtually an unknown domain in Australia. The deep scepticism about self-sustaining microfinance operations by the practitioners like Manyrivers and NAB does not seem to be based on any research and clear empirical evidence. With easy funding from the Government and the banks, the microfinancing in Australia is treading the path of dependency and self-appeasement. Australian microfinance organisations are indifferent to any advocacy role for enacting separate regulation for creating microfinance banks or institutions similar to the GB model.

Like any other businesses, customer segmentation in banking with the poor, and financially excluded, are essential pre-requisites in addressing their needs and priorities. A large untapped market of the ‘missing-middle’ is ignored by both the mainstream banks, and the specially focussed microenterprise programmes. However, some of the credit unions, having low-income people as members with embedded savings programmes, stand out as distant cousins of microfinance social business. These organisations are relatively well positioned in their design and modus operandi to achieve financial sustainability. The regulatory support allowing the credit unions to take members' deposits have strengthened their resource base compared to the charity and grant dependent NGOs dispensing microfinance.

Australia's financial regulatory framework is non-inclusive when it comes to supporting the low-income and financially excluded population. It has all the indications that inequality in the financial sector is socially constructed and supports the proposition that the problems of financial exclusion can be addressed through appropriate regulations in support of enabling institutional mechanism to operate microfinance social business enterprise (Yunus, 1993; Yunus, 2006a; Jacobs, 2004). While the lack of regulatory support is understandable, the absence of empirical evidence of group-based microlending in Australia with integrated savings and insurance components for both asset building and default management make it difficult to justify the arguments by the Australian microfinance practitioners that socioeconomic psyche and privacy laws in Australia are inhibiting such approach.

Information from both primary and secondary data have made it explicit that the dominance of the four big banks has set the strategic tone of microfinancing in Australia. Howell and Wilson (2005) argued *that:*

> *The partnership by the major banks with community organisations are, but examples of voluntary CSR and their mandate to act in the best financial interests of the shareholders, will prevent their partnership from expanding to any desirable level without external regulation to both require and permit their expansion* (138).

Given the findings and discussion in this chapter, it can be argued that the systemic indifference and the current policies in microfinancing in Australia have constrained its growth with the resultant rise of fringe lending estimated at AUD 10 billion in terms of annual transaction volume (Wilson, 2012a). Considering the overall scenario of microfinancing in Australia, it might be argued that finance for the poor is mired in an ideological debate. With a large number of low-income and financially excluded individuals in Australia, a well-designed microfinance social business, supported by appropriate regulations and the best value microfinance practices can make a positive difference.

The next chapter (i.e. Chapter 8) provides an in-depth case study of Grameen Bank (GB) of Bangladesh. The examples of best value principles and practices in microfinancing and their efficacy and limitations are discussed. Data from both primary and secondary sources are used to critically examine GB’s features including the replicability across different socioeconomic settings.

Chapter 8 Study 2: A Case Study of Grameen Bank

Overview

A key objective of this thesis is to examine the efficacy of a modified or adapted microfinance social business model of Grameen Bank (GB) for Australia within the broader context of institutional environment summarised by Scott (2009) in his *three-pillars framework* (465). Evidence suggests that the GB model is effective in Bangladesh (Khandker, 1996), and in countries sharing similar socioeconomic conditions (Hatch, 2002; Alves, 2008; Faruqee, 2010). Despite the adoption and subsequent adaptation of GB organisational and operational features, variance across institutional context might yield dissimilar programme outcomes (Etzensperger, 2014; Navajas et al., 1996; Addo and Twum, 2013). Therefore, analysis of the GB model and its contextual relevance are critical to assessing the adaptability of the GB model in Australian circumstances. A Case study method (Gibbert et al., 2008; Tharenou et al., 2007; Yin, 2009) is adopted to investigate GB to understand *complex social phenomena, the characteristics of real life events* (Yin, 2009: 4), and the institutional environment through which GB matured as a professional organisation. This case study unravels the GB model in its moral, philosophical and operational perspectives. Some of the key findings pertaining to women-centric developmental strategy, credit for self-employment, integration of savings and insurance in credit programmes, and the use of social-collateral in microfinancing have important policy and operational implications in the design of poverty-focussed self-sustainable microfinance organisations. This case study also investigates and elucidates the features of GB's institutional strategy enabling it to accommodate internal and external contingencies in responding to evolving needs of its customers, and as well the environment in which it operates.

8.1 Introduction

The story of GB is inextricably linked with the birth of Bangladesh. The liberation war of Bangladesh in 1971 displaced millions of its citizens in the erstwhile East Pakistan, and forced more *than 10 million people* (LaPorte, 1972: 104) to take refuge in India (Raghavan, 2013). The war ravaged the entire physical infrastructures in the country (Sisson and Rose, 1991;

Saikia, 2004; Akmam, 2002). The socioeconomic situation triggered a military coup in August 1975 assassinating Shaikh Mujibur Rahman (Maniruzzaman, 1976), founder of the nation. Following the coup, the country veered from one-party pro-socialist centralised economic management of Shaikh Mujibur Rahman, to a market-based economy (Mannan, 2011 ; Osman, 2010). The subsequent governments disinvested many state-owned enterprises and encouraged private investments to spur the economic growth. But the post 1975 military and bureaucratic coterie coalesced into political and economic alliances with the resultant accumulation of personal wealth and resources (Nuruzzaman, 2004).These events severely compromised the economic performance of the country.

The poverty and inequality soared.The wealthiest 20% people controlled about 50% of the national income. The percentage of absolute poverty during 1983-84 was estimated at 62.61% (BBS, 1996). Bangladesh was predominantly an agrarian economy, where about 80% people lived in villages. Landless people, defined as those persons having less than or equal to 0.5 acres of cultivable land, constituted about *64% of the rural households* (GB, 1988a: 7), possessed 2% to 3% of the land (WB, 1983). Unemployment peaked at 16.5%, *and part-time employment constituted 34.6%* of the total labour force of 56 million (WB, 1999: 27-28; BBS, 1996). Despite agriculture being the mainstay of the economy, contributing about 48% of the country's GDP, institutional lending to this sector was only *15% of total credit* during 1974-88 (Isa, 1992: 76; BB, 1988; 1989). The majority of the rural population remained outside the orbit of formal financial institutions where informal intermediaries, that is, money lenders lent out about 85% to 90% of available credit at exploitative interest rates (Mueller-Glodde, 1997; Isa, 1992; Yunus, 1983). Credit was denied to those who had nothing to provide as collateral. Rural artisans and marginal farmers were forced out of work due to the lack of working capital. Desperation compelled them to work as hired labour at low wages or to live in abject poverty. They were stuck in a vicious circle of disempowerment.

Although, the Safety Net Programmes (SNP) in Bangladesh, formerly known as the National Social Protection Strategy (NSPS), was, in fact, the service pension of Government employees, but later extended to provident funds for non-Government employees affording lumpsum amount upon their retirement. Subsequently, it was extended to food for work, disaster relief programmes (Khan, 2016), *school stipend programmes and allowances for the elderly, people with disabilities, and widows* (GOB,2014: xi).

The Bangladesh Government allocated BDT 360 billion (approximately AUD 6 billion) constituting about 14% of the annual budget during 2015-2016 financial year (GOB, 2016). These programmes, however, are different from well-structured and comprehensive SNPs in developed countries like the USA and Australia.

The available data suggest that a substantial proportion of poor and vulnerable households do not have access to these programmes. Owing to leakage and a patron-client relationship, a significant number of recipients are non-poor with the resultant impact on poverty reduction being practically insignificant (Khan, 2016).

The microfinance social business model of GB appears to be an outcome of a defiance of conventional banking wisdom. It not only substituted the key requirement of collaterals in banking for the unbanked, but institutionalised a process of socioeconomic empowerment for the poor in Bangladesh and abroad (Todd, 1996a; Latifee, 2001; Fuglesang and Chandler, 1993; Mainsah et al., 2004). Echoing Sen's (1981) position on causes of famine due to inefficient distribution of food, and systemic inequity built on a flawed notion of justice (Sen, 2009) based on rules and procedures rather than creating a just society, Yunus (1987b; 2003; 2006a) argued that the core principles on which the prudential banking regulations are built upon, are essentially unfair and anti-poor.

In this chapter, the present case study captures a brief history of GB; its philosophical underpinnings, institutional strategy, modus operandi, organisational sustainability and impacts; and its global replications. A section on a critique of GB provides divergent views about its efficacy and success.

Evidence from Study1 demonstrates the existence of a potential microenterprise market in Australia. Being mostly confined to consumer credit, microfinancing in Australia is designed to facilitate access to fair and affordable credit to the low-income people. Currently, microfinance organisations in Australia are financially unviable, generating neither self-employment nor providing any potential pathway to sustainable livelihoods like the GB model. Due to differences in the level of economy and sociocultural mix between Bangladesh and Australia, the efficacy of the GB model might not resonate directly with Australian circumstances. But microfinance, packaged and delivered through a professionally designed institutional mechanism with strong moral and philosophical groundings, might have positive practical, policy, and operational significance for Australia.

Study 2 is an investigative and analytical case study addressed through Research Questions (RQ) 3 and 4. The findings in Chapter 7 have covered some of the answers which will be fully comprehended from the findings of case studies of GB and Grameen America (GA). Similarly, the answers to Research Question (RQ) 4 draw upon the information from the previous chapters (i.e.Chapters 5 and 7) and the findings from the Case Studies 2 and 3. Table 8.1 shows the relationship among the Resarch Objectives (RO) and Research Questions (RQ) and the sources of information for each of the three studies.

Table 8.1 Research Objectives and Research Questions

Research Objective (RO)	**Research Question (RQ) against the corresponding RO**	**Studies**	**Sources of Information**
RO3:To examine the efficacy of a modified, and or adapted microfinance social business model of Grameen Bank for Australia.	RQ3: Is it possible to establish a microfinance organisation as a social business which focusses on positive social outcomes and is also financially viable?	Study 1 Study 2 Study 3	Data from secondary sources. Internally generated data from the relcvant organisations. Semi-structured in-depth interviews of participants.
	RQ4: What would be the key attributes of such an organisation?	Study 1 Study 2 Study 3	Data from secondary sources. Internally generatred data from GB and GA. Semi-structured in-depth interviews of participants Findings from Study 1.

8.2 Method

Inferring from Yin's (2009) logic of constructing the nature of a case study, exploratory questions like 'what', and explanatory questions like 'how' and 'why' have defined the nature of the present case study of GB. A case study research investigates, elaborates, and explains a fact (Eriksson and Kovalainen, 2008). This nature of the research matches the key objectives of this investigation, that is, to understand the actual operational strategy of using microfinance as an effective financial inclusion tool.

Both Yin (2003) and Stake (1995) recommended constructivist paradigm in case study research. A constructivist paradigm posits the truth to be relative and recognises the subjective interpretation of the meaning of a phenomenon or an event, but does not outright reject the notion of objectivity (Baxter and Jack, 2008). Thus, the key research questions that emerged from the research objectives in this thesis, clearly justify a case study approach for Study 2 which is exploratory in nature and focusses on both historical and contemporary events. As Yin (2009) aptly remarked, a case study not only helps to:

> *Investigate a contemporary phenomenon in depth within its real-life context, but such understanding encompasses important contextual conditions because they are highly pertinent to the phenomenon of the study* (18).

This case study of GB explores and explains the socioeconomic and institutional contexts in relation to microfinance social business, following the constructivist approach of qualitative research, using the constructivist epistemological framework (Gringeri et al., 2013; Maynard, 2006).

8.2.1 Participants

Twelve informants were interviewed from two organisations i.e. GB, and Grameen Trust (GT). GT is the replication arm of the GB model in different countries in the world. Like the multi-sourced data from a range of extant literature, the informants represented various levels of GB's organisational hierarchy including 5 randomly selected clients. Table 8.2 shows the mix of participants and their credentials.

Table 8.2 Informants for primary data collection for Case Study 1

Informants (*n=12*)	**Organisations**	**Credentials of Informants**
PGB1	GB	Internationally acclaimed microfinance proponent, practitioner, and a global thinker on poverty and sustainable development. The informant currently is the Chairman of the Yunus Centre, Bangladesh
PGB2	GB	Managing Director and Chief Executive Officer (CEO) of GB with 29 years' experience in microfinancing at both operational and policy levels.
PGB3	GB	Chairman of the Board of Directors of GB with 33 years of experience in microfinancing at both operational and policy levels.
PGB4	GB	With 26 years' experience at GB, PGB4 is an Area Manager supervising 10 branches.
PGB5	GB	Has 33 years' experience working at GB. He started his career as a Bank Assistant, and is currently the Branch Manager of a GB branch in Savar Area under Dhaka Zone.
PGB6	GB	A mid-ranking GB officer with experience working in one of the GA branches in the USA.
PGB7	GB	A female client of GB located at Shovapur Branch in Savar Area in Dhaka Zone. Has been a client of the GB for the previous 30 years.
PGB8	GB	A female client of GB located at Shovapur Branch in Savar Area in Dhaka Zone. Has been a client of GB for the previous 18 years.
PGB9	GB	A female client of GB located at Shovapur Branch in Savar Area in

Informants (*n=12*)	Organisations	Credentials of Informants
		Dhaka Zone. Has been a client of GB for the previous 16years.
PGB10	GB	A female client of GB located at Shovapur Branch in Savar Area in Dhaka Zone. Has been a client of GB for the previous 19 years.
PGB11	GB	A female client of GB located at Shovapur Branch in Savar Area in Dhaka Zone. Has been a client of GB for the previous 15 years.
PGT1	Grameen Trust (GT), Bangladesh	Managing Director of GT. He was also closely associated with the founder of GB since its early days.

Note: PGB and PGT are Acronyms for Participants Grameen Bank, and Grameen Trust respectivley.

The purpose of selecting a range of informants was to ensure a multilevel understanding of the organisation, its hierarchy, its overseas replications, which otherwise would not be available from any secondary sources. Moreover, a multilevel analysis ensures a high degree of triangulation, obtaining data from multiple sources including CEO, Chairman, managers and customers.

8.2.2 Data Collection Procedure

To establish an epistemological coherence, data collection procedure needs to be aligned with the research paradigm (Farquhar, 2012). Constructivist paradigm underpins this study including the interpretation of data (Lauckner et al., 2012). Stake (2000; 1995), in his works on case studies elaborated upon the epistemological constructivist paradigm. The constructivist grounded theory approach of Charmaz (2000; 2006) recognises multiple perspectives in data interpretation. The reiteration by Lauckner et al. (2012) of the *ontological belief that reality is local, and specifically constructed* (5), lends credence to the subjective experience of realities expounded under the constructivist paradigm. Accordingly, as part of the present data collection procedures, informants were allowed complete freedom to reflect and share their experiences on specific issues facilitating diverse views and interpretations.

Since, the research questions and the research objectives determine the data collection procedure (Patton, 1990; Patton, 2002), semi-structured interviews were used to collect the primary data. This approach has enabled the current researcher to take into account the divergent perspectives of informants. Interviewing can provide details, while obtaining an 'insider' view, and minimising gaps in knowledge. Being flexible in nature, semi-structured interviews allow the interviewee to also interpret and reflect on specific topics of the research (Bryman and Bell, 2011; Campion, 1993; Lee et al., 1999).

All interviews were conducted through prior appointments in the offices of the informants. The current researcher visited Bangladesh from 28 June 2014 to 10 July 2015 to conduct the interviews once the appointments were finalised.

8.2.3 Data Analytic Procedure

The data analytic procedures are similar to those described in Study 1(Chapter 7).

In the context of case studies, *data analysis consists of examining, categorizing, tabulating, testing, or otherwise recombining evidence to draw empirically based conclusions* (Yin, 2009: 126). According to Yin (2009), the most important strategy is to follow the theoretical propositions or hypotheses that led to the case study. In other words, such propositions can help the analyst plan and focus on the most relevant data, organise the entire case study, and define alternative explanations.

All the twelve interviews in Bangladesh were audio recorded, and then transcribed for analysis post their feedback. Five interviews with GB borrowers were conducted in Bengali and translated and transcribed by the current researcher as it helps *in interpretive thinking needed to make sense of the data* (Lapadat and Lindsay, 1999: 82).

For primary data collection, the selection of multiple level informants performing different tasks in an organisational hierarchy, helped in understanding an issue from each individual's perspectives. The multiple sources and levels involving internally generated data, primary data from in-depth semi-structured interviews, and a wide range of extant literature were useful in cross verification of information for more objective analysis and also in improving the validity and reliability of findings (Golafshani, 2003). The data triangulation process shown in Figure 6.3 and discussed in Section 6.7.1 illustrates this feature of Study 2.

Inductive analysis facilitated the elicitation of diverse perspectives from the informants on different issues that are relevant to investigate the GB model and its efficacy in addressing its key purpose of poverty alleviation and financial exclusion.

8.3 Findings and Discussion

The findings and discussion are conducted simultaneously based on both primary and secondary data mentioned in Table 8.1. The content analysis of the semi-structured interviews and the multiple sources of secondary data unravelled the historical context of GB and its moral grounding through institutionalising a system primarily relying on the tenets of social-collateral. To understand GB as an organisation and a process, termed as a *socioeconomic formation* (Fuglesang and Chandler, 1993: 39), this case study unveiled how an idea was translated into a concrete set of operating principles questioning the ethical foundation of banking norms and practices. Therefore, the key findings in this case study emanate from its philosophical underpinnings of credit as a human right, as an instrument for self-employment, and a gender empowerment strategy to its transformative power to break the vicious circle of poverty into an expanding cycle of socioeconomic empowerment for hitherto unbankable population. The findings also included the institutional strategy of GB in its transformation as professional organisation demonstrating its ability to respond to needs and priorities of its target clientele in refining a set of best value principles adaptable to diverse socioeconomic environments. Therefore, each of the following eight sections (i.e. from Section 8.3.1 to Section 8.3.8) capture the essential GB in its core essence and are critically discussed keeping in focus *the exploratory and explanatory* elements (Yin, 2009: 8) of a case study research.

8.3.1 Establishment of GB

The word ‘Grameen’ is derived from the Sanskrit word ‘gram’ meaning ‘rural’. Bangladesh, a developing country with a population of *about 158.5 million at the end of 2014* (ESCAP, 2014: 43), and 66% people living in the rural areas (CIA, 2016), was ranked among the top five fastest-growing economies in the world in 2015 (Hodgson, 2015). This performance can be attributed to a pro-poor inclusive growth strategy reducing poverty from 56.6*% in 1992 to 31.5% in 2010* (ESCAP, 2014: 43), and projected to be about *24.8% by the end of 2015* (GED, 2016: 9). However, about four decades ago, economic mismanagement coupled with natural calamities in the wake of a war culminated into the 1974 famine (Mascarenhas, 1986;

Hossain, 1993; Clay, 1985). Bangladesh experienced its worst economic hardship since the partition of India in 1947 (Khan, 2007). Thousands of people died out of hunger, and to avert further mortality, the government opened relief centres *providing cooked food relief to 4.35 million people; more than 6% of the total population of the country* (Sen, 1981: 131-132).

During the first two decades following the Bangladesh liberation war in 1971, the entire rural financial sector was plagued with low recovery and systemic abuse (Khalily, 1991; Chowdhury and Chowdhury, 2011; Khalily and Meyer, 1993). Yunus returned from the USA in 1972 and joined as the head of the Department of Economics at the University of Chittagong, located in a rural setting in Bangladesh (Yunus, 1994). His daily encounter with villagers in Jobra, a small village outside the university campus, helped him to understand the causes and consequences of poverty. In his words (Yunus, 1994), *frustration* gripped him and *euphoria of liberation started to erode very quickly* (4). He almost gave up university teaching and took out time to hold discussions with villagers. Yunus (1994) narrated that:

> *The first spark for Grameen Bank came in 1976 when I was talking to a woman in that village, Jobra. She used to make bamoo stools. She was earning 10 annas*[5]*. I was shocked that anybody could spend so long making such a beautiful stool and make less than three-quarter of a Taka* (5).[6]

The real picture was that the woman did not have the ability to buy raw materials and borrowed money from a village trader who made the profit. Yunus (1991; 1987b) was convinced that a little capital in the form of credit at affordable terms would put the poor men and women into an ordinary income earning stream to come out of a so-called poverty trap.

In 1976, Yunus experimented the concept by lending out small amounts of money to a few landless men and women, organised in groups of five in the Jobra village. Those individuals repaid loans in small weekly instalments. The arrangement was effective with every cent paid on time (Bornstein, 1997; Mainsah et al., 2004). Borrowers invested their loans in income-generating activities of their choice. The concept was further validated through an action-

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[5] Anna is the informal name of poisha. Bangladeshi Taka or BDT is made up of 100 poisha

[6] As per the historical exchange rate in 1976, 1 AUD was traded at about 19 BDT

research programme initiated by Yunus (1991) in the same village. His approach to the government banks in the locality for small amounts of loans to a few handpicked enterprising poor was meet with rejection. The simple reason was the *lack of collateral* (Bornstein, 1997: 40). Convinced that the present collateral based banking is *constitutionally anti-poor* (Yunus, 1983: 4), Yunus resolved to push it further.

Against this backdrop, in late 1976, Anisuzzaman, the then Managing Director of the Bangladesh Krishi Bank (BKB), a state-owned agricultural development bank in the country, relented to Yunus's persistence, and agreed to open a small booth in the BKB branch in Jobra village to be exclusively run by Yunus on his banking rules (Bornstein, 1997). Within a few months, the number of clients increased, rules were refined, and loan recovery remained almost 100%. The experience of his banking venture gave him enough information to convince the then Deputy Governor A.K. Gangopadhyay of Bangladesh Bank (BB) (the central bank of the country) to expand the programme in Tangail, a district about 90 kilometres north of Dhaka city. Yunus (1994) formally took leave from his university job *in June 1979* (8) to lead the project named as the Grameen Bank Project (GBP), launched in November 1979 (Hossain, 1983). GBP units were set up with a field manager and a number of workers, attached to selected rural branches of existing nationalised commercial banks, and the BKB. With success in Tangail, the GBP expanded to four more districts: *Chittagong, Dhaka, Rangpur, and Patuakhali, operating through 86 GBP units* (Yunus, 1994; GB, 2012: 40), before being formally converted into a full-fledged specialised bank by a Government Ordinance in 1983 (GOB, 1990).

8.3.2 Philosophical Underpinnings

One of the key findings that distinguish GB from other institutions operating in the space of poverty alleviation is its clear moral prerogatives and pragmatic operating principles in the design and delivery of programmes based on equal opportunity and a participatory approach. Yunus (2009) posited that *maximization of profit and doing good to the people are two mutually exclusive and compelling human motivations* (243). Yunus (2003) insisted that charity does not alleviate poverty, it perpetuates and appeases the conscience of charity givers. Yunus (2009) considers c*harity* as *a sort of trickledown economics; if the trickle stops, so does help for the need*y (10). GB is the embodiment of these philosophical underpinnings.

PGB1, PGB2, PGB3, and PGT1 stated that poverty alleviation through providing access to micro and small loans for income generating activities, under a proper institutional arrangement, at appropriate terms and conditions, is the primary purpose of GB.

Embedded into the core principles of capitalism, GB applies business ethics to solve social problems. Designed to be financially and operationally sustainable, it connects the financially excluded poor to the economic value chain as active participants through institutional arrangements. The inclusive nature of GB is incorporated into its constitution by giving *75% share of the bank to its borrowers of which 20% preferably by women borrowers* (GOB, 1990: 5). Clients of GB are also designated as members, and each member is expected to own a share through her/his savings. They can also be called member-clients to signify their relationship with GB. It may, however, be clarified here that there are clients who are essentially depositors in one or more savings products as part of deposit mobilisation by GB, and therefore, are neither members nor borrowers of GB. This category of client is designated as a non-member. Therefore, in this study, all the four words: client, borrower, member or member-client are used synonymously (i.e. interchangeably).

The example of inclusiveness by way of providing ownership to the poor is a unique feature of GB. It is found to be effective not only in enabling participatory decision-making by the poor in maximising returns, both in economic and social terms, but also immunes the organisation from any mission drift. PGB1 insisted that:

> *Ownership by the GB borrowers is both a philosophical and a political issue motivating the borrowers to maintain the robustness and viability of the organisation.*

Therefore, organisational viability is woven into the very fabric of GB.

8.3.2.1 Credit as a Human Right

GB is the first organisation embracing the principles of the human right approach to lending. The operational definition of poverty in Table 3.2, cites human right approach (HRA) (Robinson, 1997; Yunus, 1987b) as one of the key precepts to formulate strategies for addressing the issues of sustainable development (UNDP, 2003). HRA, an extension of the ethical perspective of poverty and exclusion (Edward, 2006), forms the core paradigm in the design and operationalisation of GB. In other words, the non-viable charity driven operations and trickle down economic approach, are put under moral and institutional scrutiny. PGB1 was critical of the ethical foundation of *the laws that create banks only for the rich*. Yunus's (1996) assertion of *credit as a fundamental human right* (5) explains both a moral prerogative and legal argument, underpinning the need for separate banks for the financially excluded disadvantaged population. Yunus (1993) insists that *GB: A Bank for the Poor* (3) exemplifies such an institution.

8.3.2.2 Credit for Self-Employment

The concept of using microfinance as a tool for income generation and self-employment is found to be pivotal in GB's operating strategy. The GB approach to microfinancing is not a stop-gap solution to income smoothening, nor is it for financing consumer goods. PGB5, one of the branch managers of GB, was unequivocal in stating that:

> *Using loans for purposes other than income generation would result in debts and inability of borrowers to service their loans. Income generation and self-employment are the principal objectives of GB loans.*

Yunus (1987a; 1998b) is an ardent proponent of self-employment. The GB microfinance model uses credit to reverse the age-old vicious cycle of poverty into an expanding cycle of incomes (Yunus, 1987b; Yunus, 1983). The rationale for self-employment through the GB model is aptly captured in the following words of Yunus, quoted by Bornstein (1997) in his book The Price of a Dream: The Story of the Grameen Bank:

> *Unless designed properly, wage employment may mean being condemned to a life in squalid city slums or working for two meals a day for one's life. Wage employment is not a happy road to the reduction of poverty. The removal or reduction of poverty must be a continuous process of creation of assets, so that the asset base of a poor person*

> *becomes stronger at each economic cycle, enabling him or her to earn more and more* (23).

Yunus (2009) also argued against the *assumption that people wait for job to materialise and self-employment is a temporary stop-gap* (54), and insisted that economic theory:

> *Failed to recognise a household as a production unit, and self-employment as a natural way for people to make a living* (54).

This argument reflects the fact that globally more people are on self-employment than on wage and salaried employment, and the *incidence of wage and salaried employment has been on a downward trend, thus departing from historical patterns* (ILO, 2015: 13). The creation of opportunity for self-employment, according to PGB3, generates further employment in the informal sector. Of the five GB clients interviewed as part of primary data collection, three of them (i.e. PGB6, PGB7, PGB9), expanded their businesses, involved their respective family members, and even employed additional people to manage their businesses.

GB's total reliance on self-employment through microfinance as a tool to redress financial exclusion and poverty alleviation stemmed from Yunus's experience during *1976 when he loaned out USD 26 (BDT 856) to 42 poor people* (Bornstein, 1997: 39). The results stunned him. The poor borrowers not only repaid their individual loan in small instalments but got back into income streams eking out their daily living. The subsequent story is that of confirmation and reconfirmation of that event. With 8.8 million GB clients (GB, 2016), it is hard to argue against this proposition.

8.3.2.3 Woman Empowerment

Women-centric development (Littlefield et al., 2003; Cheston and Lisa, 2002) is found to be a recurring theme in the GB strategy. All the informants emphasised the need to prioritise women in the GB microfinancing approach. The current researcher visited a number of branches and centers under Savar Area in the Manikgonj Zone of GB. All clients in those branches and centres were women. PGB4 and PGB5 were categorical in asserting that women were better performers as clients both regarding compliance with bank rules and utilisation of loans. PGB3 argued that *from the point of view of national development, money going through women has a positive impact on the programme.*

Yunus (2007) affirmed:

> *We realised that improvements in the economic and social conditions of a poor household can be produced faster if the process of change is initiated through the women of the household rather than through men. They have intense drive to move up, concerned about their children's present and future, willing to make any sacrifice for the wellbeing of the children in a systematic manner to reach their objectives* (40,41).

PGB3 argued that *empowerment of women is the key to GB's approach to addressing poverty and inequality; both in social and financial terms*. In a patrilineal conservative society like Bangladesh, discrimination against the women are multifaceted. Even the working women, participating in the labour force, face gender-related wage discrimination as high as *23.1%* (Kapsos, 2008: ix). Due to a rapid expansion of garments manufacturing in the country, many women flocked from rural areas to urban slums to be employed as low-paid shop-floor workers. With an overall *15% employed women being in the formal sector* (Rahman and Islam, 2013: 25), the low-wage, coupled with unfavourable employment conditions, often push them into extreme financial difficulties. Most of the women, who are outside the formal labour force is mostly engaged in self-employment or unpaid household chores as housewives or low-paid domestic aids. However, *through increased access to microfinance, women's household labor has been transformed into cash contributions to household income* (Thomas, 2004: ix), especially in the rural areas, helping to reduce the rural poverty.

In the book based on a field research on GB, titled Women at the Center: Grameen Bank Borrowers After One Decade, Todd (1996b) remarked:

> *The success of the Grameen Bank has vindicated Yunus's original confidence on women many times over. Our study of 40 GB members shows how effectively women have used this capital to pull their families out of poverty and to invest in assets to secure this progress* (214)

The deliberate policy of GB to address poverty and financial exclusion by targeting women as the primary beneficiaries of its microfinance operation is reflected in the increase of women borrowers to 97% at the end of January 2016 from *30%* during early years of GB (2016). The five borrowers interviewed in Shovapur Savar branch, in Dhaka Zone of GB, as part of this research were all women, and everyone had a story to share; a journey from rags to riches.

8.3.3 Institutional Strategy of GB

The philosophical underpinnings discussed in the preceding sections shaped the institutional strategy of GB. This strategy was found to be effective in reaching out to the vast multitude of unbanked population in the country, refining the concept of the social-collateral model (Postelnicu et al., 2013; Van Bastelaer and Leathers, 2006; Besley and Coate, 1995) of banking, and demonstrating that financial exclusion can be mitigated through appropriate institutional designs in an inclusive regulatory environment.

Fuglesang and Chandler (1993) aptly described GB *as a social development enterprise rather than a strictly economic development enterprise* (120). The needs and priorities of GB borrowers are encapsulated in Sixteen Decisions (Appendix 8), that essentially set the goals that GB and its clients aspire to achieve together. PBG2 and PGT1 consider GB as a bank plus, while elaborating its strategy and goals that go beyond financial transactions. The institutional strategy of GB is discussed in the following five sections.

8.3.3.1 Organisation and Management

GB being different from mainstream banks in its overall objectives and banking approach, its establishment was through a special ordinance by the Government of Bangladesh (GOB, 1990). PGB1 emphasised the building of an *appropriate organisational structure* capable of addressing the specific needs and priorities of banking for the poor. GB is neither a commercial bank nor a non-profit community development organisation. Being a social business, financial sustainability of the organisation is part of its design, but is subservient to the overarching goals of social outcomes to alleviate poverty through a *holistic approach* (PGT1) to microfinancing as part of socioeconomic transformation of its clients.

Microfinance being a highly-supervised form of credit, clear delegation of responsibilities extending down to the groups and centers, form the basis of its supervisory strategy and performance evaluation. Board of Directors of GB is the highest policy making organ of the organisation in which 9 out of 13 directors are elected from among the shareholder clients of GB. Like a professional organisation, GB is structured into 12 departments at the Head Office to coordinate and support the Zonal, Area and Branch Offices in servicing its clients in the villages. The existing organisational structure with a well-defined hierarchical flow-chart is capable of effectively supervising about *8.82 million borrowers under 2,568 branches, spread* *out in 81,392 villages* all over Bangladesh (GB, 2016). An overall organisational flow chart with supervision strategy of GB is shown in Figure 8.1.

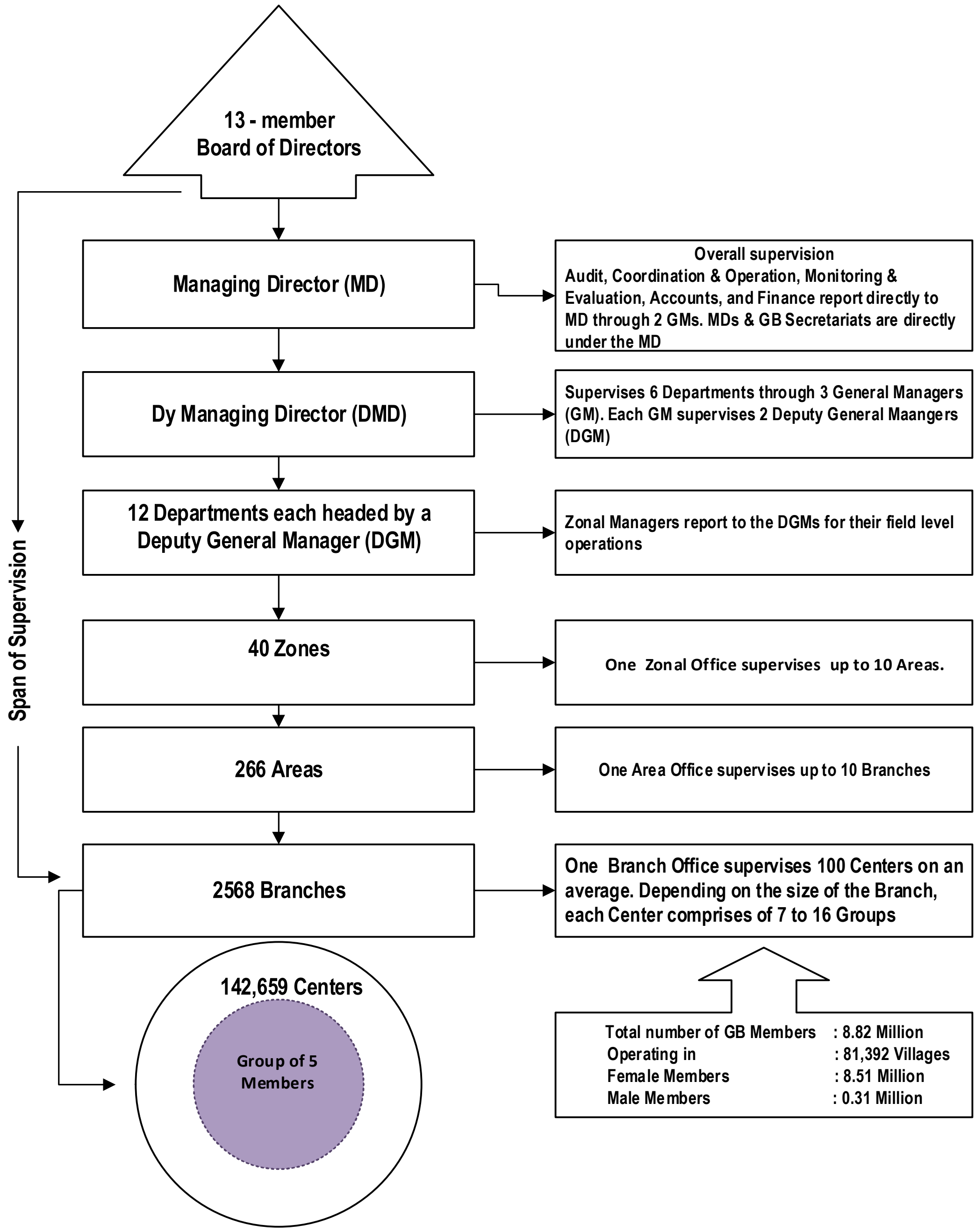

Figure 8.1 Organisational Flow Chart of GB with Supervision Strategy

Source: Semi-structured interviews with GB officials, GB Annual Report (2012), and GB Monthly Monitoring Statement (2016).

High levels of autonomy in annual and long-term planning, aiming towards financial self-sufficiency, is granted at each level of GB hierarchy (PGB2 and PGB3). Overall daily management of GB is the responsibility of the Managing Director (MD). Supported by the General Managers (GM) and the Deputy General Managers (DGM), the MD runs the bank through a Policy Committee (PC) where the GMs and DGMs are the members. Before adopting any new policy, the draft is circulated to the Zonal Managers for their inputs. A three-day ZM conference is held biannually to discuss operational and policy issues in different Zones as part of performance monitoring and problem resolution for further improvement. PGB3 termed the GB operation to be *participatory and inclusive in nature where policies are formulated with inputs from various levels of management.* Fuglesang and Chandler (1993) viewed it as a *consensual approach* (59) in which everyone has to meticulously implement decisions.

The entire field level supervision regime of GB can be described *as a circle within a circle* (Yunus, 2007: 26) like a generic growth of a living entity. The group is the smallest circle, and the circle grows bigger with each span of supervision to ensure that the immediate smaller circle maintains its efficiency. A GB branch is essentially a composite of Centers which in turn are composites of Groups. Supervision starts within Groups and the members of circle increase as illustrated in Figure 8.2.

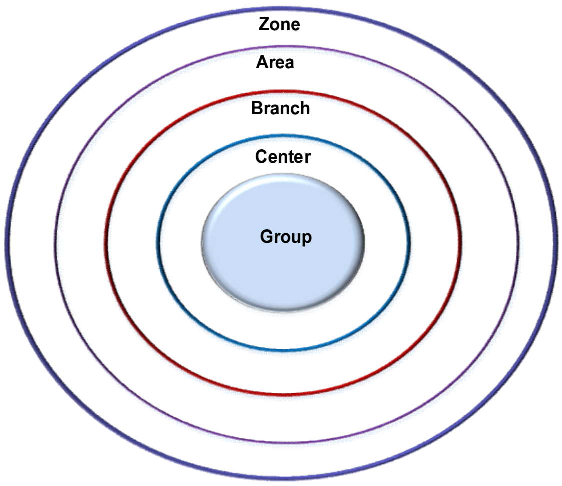

Figure 8.2 Field Level Supervision Regime of GB

GB is a highly-structured organisation, and a participatory approach to decision making is built into its system. The intake of members in a GB group, loan proposals, recommendations, and subsequent supervisions originate from the smallest circle of this supervisory regime.

According to PGB2, a Zonal Office is essentially the head office for a Zone, and with a bottom-up planning process it ensures accountability for actions arising from Branch Offices reaching up to the Head Office, through Zonal Offices. Except for very large microenterprise loans beyond certain ceilings, a Zonal Office is empowered to approve various categories of loans. The authority is progressively delegated to Area Managers and Branch Managers to ensure efficiency and accountability. The key functions of Zonal and Area Managers are therefore, overall monitoring and supervision of operations under their respective jurisdictions to ensure overall operational quality and programme outcomes. To finance its operation, a Zonal Office borrows funds from GB Head Office (GBHO) at an interest of 12% per annum, and passes on to branches under it for on-lending to the clientele at 20% annual interest. Any surplus money generated at the zonal level is invested with GBHO at 12%. No "idle fund" is kept at the zonal level. The financial superstructure of a zone is essentially built upon the branches whose income support the operating cost of the supervisory offices above it.

8.3.3.2 Branch Banking Approach

GB follows a branch banking approach. A GB branch is the primary interface with the members /clients. It is the basic operating unit where 85% of GB's 22,128 staff (GB, 2011: 35) are employed. According to PGB3:

> *All activities of GB are organised around a branch, and every branch is an independent profit and loss centre.*

A branch is essentially a mini GB. A typical GB branch has 9 staff: one Branch Manager (BM), one Second Officer, six Center Managers (CM) and one Peon cum Guard. One CM typically supervises ten centres every week (PGB5). Depending on the number of clients in a branch, the staff size may increase or decrease. Productivity or efficiency of CMs and other staff members in a branch is evaluated using a range of criteria that include, among others, amount of loans disbursed, the number of clients supervised, loan recovery percentages, mobilisation of savings, branch profitability, Center discipline and social and economic outcomes of clients serviced. The efficiency of zones and areas is evaluated on the overall performance of branches under their respective supervision.

PGB3 was categorical when he stated that:

> *A good Area Manager ensures that the branches supervised under her/him achieve faster financial viability with concrete economic and social outcomes*

PGB3 claimed this to be a team effort, saying that:

> *While contribution of each team member is recognised and rewarded, the ultimate onus is on the leader of the team.*

Therefore, failure to achieve specific targets, at any level of the GB hierarchy, is not pushed on to the lowest member in the rung. Accountability is shared in proportion to the responsibility.

8.3.3.3 Training of Staff and Clients

GB's training programmes are tailored to specific needs and priorities of its clients. The top four informants (i.e. PGB1, PGB2, PGB3, and PGT1) representing GB and GT at policy formulation and strategic levels, underscored the success of GB to its trained pool of dedicated professionals. Because of GB's *emphasis on training*, *it established its own training institute with dormitory facilities which was in operation by 1987* (Fuglesang and Chandler, 1993: 74) prior to the GB's major expansion programme from 1989 (GB, 1988a). PGB3 was emphatic on his observation that on-the-job training requires trainees to be in direct contact with the poor to help employees clear up many of the misconceptions about poor and poverty. Eighty per cent training time is spent in rural areas where GB branches are located. GB's training underpins *the interaction of four dimensions: self-reliance, cooperation, innovation and empathy in the daily meaning of povert*y (GB, 1988a: 40). Thus, the training programme is designed in response to the challenging tasks of GB's field operation and includes three broad categories of training: induction, in-service, and clientele.

Induction training has a preponderant reliance on independent and on-the-job learning. It is a three-phase programme for new recruits, implemented over a 6-month period during its first phase. PGB3 explained that:

> *Induction training is designed to convey to the trainees from the very first day, that they are members of a special team required to work hard in a challenging social environment, usually in adverse living conditions.*

Out of 187 training days, only 23 days are allotted to classroom activities. A comprehensive curriculum of about 50 topics covers, inter alia, group and center organisation, loan processing procedures, thorough understanding of various saving products, record keeping, intensive supervision strategy, use of ICT, motivational techniques, and social development (GB, 1988b). The inductees or trainees are plunged essentially into field assignments, and are required to carry out village surveys, collection of market data, organise groups and centers, and processing of loan applications in a real-time context. *Their findings and experiences are presented in writing and utilised as instructional materials in the classroom, during training period* (GB, 1988a: 41). PGB3, who previously was the Director of Training in GB, reiterated:

> *The first phase of induction training programme is very critical, as it exposes the trainees to the challenges in a difficult rural setting. Many of them are overwhelmed with nature of the job resulting in an average drop out of 46% within first two weeks.*

The critical first phase of induction training of GB, in number of days, is illustrated in Table 8.3.

Table 8.3 Induction Training for New Recruits - First Phase

Training Level	Classroom Training (Days)	In the (Days)	Cumulative (Days)
0	2	58	60
1	7	53	120
2	7	53	180
3	7		187

Source: Preparation Report of GB (1988a: 41).

Both trainee Branch Managers and Center Managers undergo similar initial training procedures. Upon completion of the first six months of training, the prospective Branch Managers /Center Managers, begin their careers as Probationary Officers/Center Managers in different branches for a further six months before their confirmations at the successful completion of induction training of one year.

In-service training is designed to upgrade knowledge and skills for higher responsibilities or for taking up new challenges arising from socioeconomic changes, introduction of new loan products or services, familiarising with emerging environments (i.e. new laws, rules or banking techniques, adapting to new technology) or systems for higher productivity and programme outcomes. PGB2 referred to induction training as an adjustment or promotion process. In-service training is a useful way for GB to maintain competency of the management team particularly in terms of efficiently handling the complexities arising out of organisational growth and environmental challenges.

Clientele training involves two aspects: banking, and social development aspects. This programme is implemented through organising workshops and exchange visits of clients. Organised at zone, area, and branch levels, every field office has an annual budget for organising workshops with varying durations from 1-7 days. The nature and purpose of clientele training programmes are documented briefly in Table 8.4.

Table 8.4 GB Clientele Training Programme

Nature of Training	Duration	Frequency	Purpose and Participants
National Workshop	1 to 2 days	Every 2 years: organised at national level	• GB operation and development relevant to the overall wellbeing of the clients on a national level • Participants: Center Chiefs
Zonal Workshop	1 to 2 days	Every 2 years: Organised by each zone	• GB operation and development relevant to the overall wellbeing of the clients in their respective zones • Participants: Center Chiefs
7 Days Workshop	7 days	Branches decide the frequency	• Social Development Programme Implementation of GBs Sixteen Decisions • Participants: Borrowers/clients of a branch
Workshop for Center Chiefs	Once a year	At least once a year: Organised at branch or area or zonal level	• Social Development - Programme: Implementation of GBs Sixteen Decisions • Participants: Center Chiefs of branch, area or zonal offices
Exchange Visits	I day	Branches decide the frequency	• Peer learning: Sharing of experiences • Peer motivation: Reinforcing confidence from each other • Peer solidarity: Providing support and mutual help

Source: GB (1988a: 51,52), Semi-structured interviews with GB officials and clients.

The clientele training programme of GB is driven more by process rather than outcome which might focus on imparting skills as might be the case in pre-packaged training programme for youth employment. Here the focus is on acquiring key skills and learnings from the peers in similar circumstances. The programme underpins *peer learning, peer solidarity and peer motivation* (GB, 1988a: 52*).* All the five GB borrower/client informants (i.e. PGB7, PGB8, PGB9, PGB10 and PGB11) extolled the virtue of the clientele training programme, as it helped them to build mutual solidarity, confidence, and to generate ideas while deciding to borrow enterprise loans to expand their businesses.

8.3.3.4 Monitoring and Evaluation: The Eyes GB

Monitoring and Evaluation (M&E) is one of the key drivers of high performance outcomes, assisting GB to prepare and respond to any contingencies pertaining to its operation. The existing monitoring functions of GB is fully-automated using a comprehensive *web-based software named gBanker* (PGB2). It is essentially a comprehensive Management Information System (MIS) capable of measuring and assessing Loan Quality (LQ), Management Quality (MQ) and Earning Quality (EQ) of GB operation.

LQ is monitored through the analysis of GB's loan disbursement and outstanding portfolios in relation to recovery rates and trends, analysis of clients' loan intakes and performance records, savings mobilisation trend analysis, repayment behaviour, clients' compliance with the bank's rules and regulations, and changes in the client's socioeconomic conditions. In contrast, MQ is the evaluation of GB's performance in relation to staff utilisation, profitability trends, budgetary deviation and control, fund management, employee motivation and productivity, internal audit schedule and performance and crises handling capability of GB at various levels of its operation. Techniques used in MQ assessments are both quantitative and descriptive in nature. EQ is measured through performance indicator reports like monthly income and expenditure analysis, financial analysis based on actual and anticipated growth potential, ratio analysis in relation to earnings and expenses and asset utilisation, in addition to half-yearly and yearly closings of GB's accounts.

The information generated through the bank's MIS, provides the basis for determining the achievement of two broad objectives: Operational Transparency (OT) and Quality of Operation (QO). According to PGB2, the fulfilment of these objectives is critical to the success of GB as a social business enterprise. These dual objectives define the nature and complexity of GB as an organisation. The complexity arises from embedding social outcomes as one of the unflinching goals along with achieving financial viability. While relying on integrity and ability of its clients, GB is meticulous in enforcing discipline and accountability through an investigative and vigilant MIS to capture any voluntary and non-voluntary aberrations that may thwart these dual objectives. Bornstein (1997), citing Yunus, who described M &E

> *As the eyes of the bank; the nerve center, absorbing and processing the information carried by thousands of bank workers each day as they returned from their center meetings with stocks of money and sheets of figures* (221).

M&E Department is the repository of information flowing into its data base from different levels of GB hierarchies for processing and analysis, and continuously feeding the GB staff with results of their actual performances, fostering competition and swift corrective actions. Figure 8.3 Illustrates M&E system of GB, developed on the basis of semi-structured interviews, materials derived from GB internal documents, and field visits by the current researcher.

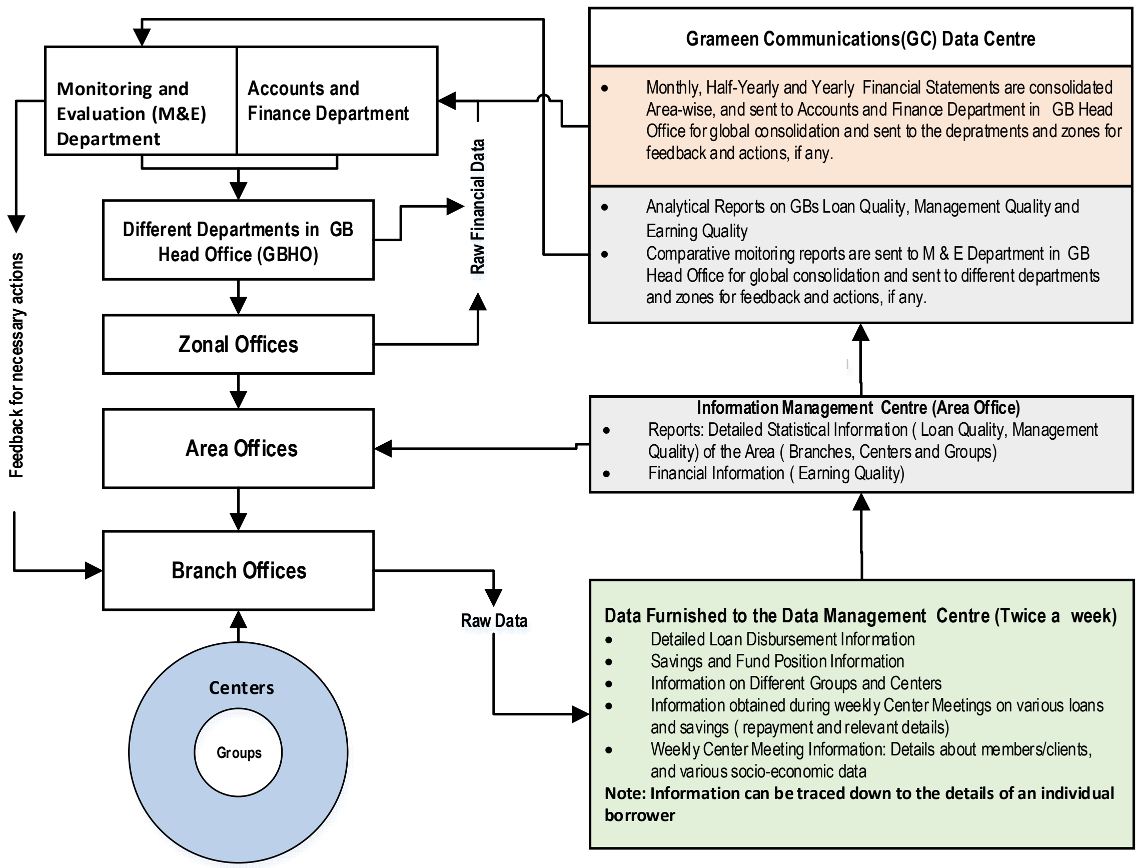

Figure 8.3 Monitoring and Evaluation System of GB

Since 2000, GB outsources data processing for its entire field level operation from Grameen Communications (GC); one of the peer companies of GB (PGB2). An Information

Management Centre (IMC), set up by GC in every Area Office (PGB5), receives raw data twice a week in prescribed computer generated information sheets from GB branches under each Area Office. IMC regularly churns out comparative analytical reports on branch operation and provides continuous feedback to the Area and Branch Offices on their performances and sends the electronic copies to GC Data Centre (GCD.C.). GB M&E Department consolidates all analytical reports on LQ and MQ, it receives fortnightly and monthly, from GCD.C. on GBs 266 Area Offices, and shares these with the departments and the zones for their information and follow-up. EQ reports are directly sent to the Accounts and Finance Department in GBHO for consolidation and preparation of reports for the entire bank, showing comparative performances of different zones and areas. Data processing outsourcing by one of the peer companies of GB has resulted in objective and faster reports generation, and benefited GB in three ways: drastically reducing the workload in Branch, Area and Zonal Offices; practically eliminating paper works, and saving time for supervision of loans and clients at the branch level.

For keeping microfinance programmes under tight supervision, the data automation procedures enhanced information retrieval time and facilitated access to a wide variety of analytical reports for a better understanding the quality of GB's operation. It is primarily a troubleshooting outfit, flashing out warning signals to GB management on various critical areas, among others, branch profitability, individually and by zone, rate of loan disbursement and recovery, efficacy of fund management, saving and deposit mobilisation, socioeconomic impacts through measurable criteria, and overall sustainability of the bank as a social business enterprise.

8.3.3.5 Social Development Agenda

Attempt to describe and evaluate GB as a bank does not capture the full essence of its features and objectives. PGT1 described GB *as a bank plus,* affirming that:

> *While financial viability of the organisation is important, the ultimate purpose is to change the lives of GB's clients; to put them on to a path of economic progress.*

The views of PGT1 are consistent with that of Fuglesang and Chandler (1993), who described GB:

> *As a socioeconomic formation, a social design, in which its clients are its members, who participate by making themselves socially and economically accountable to each other* (39).

The embedding of a self-selected social development agenda (SDA) by its members in GB's institutional strategy defines its unique approach to addressing poverty and financial exclusion. Reified as the Sixteen Decisions (see Appendix 8), SDA *represents personal and collective manifesto of GB clients* (GB, 1988a: 134). These decisions cover economic, social, housing, group solidarity, health, education, sanitation, sense of justice, mutual cooperation, discipline, and self-reliance. Inferring from Yunus, Bornstein (1997) typified GB:

> *As a socially conscious capitalist enterprise, an institution capable of addressing an urgent social need through a format of vital competitive business* (342).

Poverty is such a debilitating experience that mere financial support for initiating micro enterprises, might not always deliver the intended outcomes. PGB1 argued that lack of income or financial exclusion is one of the many problems that a poor person confronts on a daily basis. He insisted *that credit is an entitlement to resources, and if it could be packaged and delivered properly, other obstacles could be removed as well.* As a socially conscious capitalist enterprise, the SDA reinforces confidence and instils ambition in GB's poor clients for striving to achieve their best. For effective poverty eradication outcomes, Yunus (1991; 2006a; 2009) insisted on creating separate institutions, built on business principles, capable of identifying and integrating the needs and priorities of the poor in their designs. SDA or the Sixteen Decisions of GB is a set of commitments; constant self-reminders to the GB members/borrowers to lead and act in certain ways to reinforce their efforts for this change. GB has institutionalised SDA in its overall business design and tracks the impact of its programme based on the progress its clients achieve in the key areas of SDA. PGB1 described the Sixteen Decisions:

> *As a set of bigger objectives, beyond the mere use of loan and its repayments. These decisions, are essentially the future directions, set by the clients for themselves in a national workshop in 1984. The bank simply facilitates the efforts of its borrowers (i.e. clients) through an institutional process.*

The clientele training programme (see Table 8.4) is tailored to address the implementation of SDA. All the five GB clients interviewed (Table 8.2) were unequivocal in acknowledging the benefits of SDA in their journey from poor housewives into being entrepreneurs. PGB7 who is the Center Chief in her Center under Shovapur Branch informed:

> *The Sixteen Decisions are all good for us. We got direction to organise our lives and got maximum benefits in utilising the loan money, avoided the vices like child marriages and dowries. Because, we follow these decisions we drink clean water, help each other when necessary, and are always united in the face of any problem.*

PGB4, an Area Manager, of Savar Area supervising 34,000 members in 11 branches under his Area, extolled the benefits of SDA in the following words:

> The *supervision of GB clients becomes easy when a client is meticulous in adhering to the commitments in the Sixteen Decisions. This (i.e. SDA) not only keeps them disciplined and cooperative, but also makes them mindful of using loans for the in-tended purposes.*

GB's own criteria for measuring progress towards escaping poverty are essentially based on the achievements of one or more of the commitments contained in SDA.

8.3.4 Modus Operandi

One of the essential requirements of community development organisations, as argued by Korten (1987; 1980), is the critical fit between an organisation's implementation process, and needs of its participants. Korten (1980) was talking about effective programme delivery and the resultant outcomes. While many development organisations adapted their approaches to that of community expectations (1987), complexities arose when social outcomes are to be achieved in a self-sustainable way. In this instance, GB, primarily a community development organisation (Hassan and Renteria-Guerrero, 1997), had to develop a unique service delivery methodology to achieve the dual objectives of socioeconomic outcomes for its clients and financial viability as an organisation.

The loans of GB being unsecured unlike conventional banks, its modus operandi incorporated group-based peer-pressure as social-collateral with different savings products to build up resource and resilience for its clients. Therefore, GB's approach to service delivery is different from mainstream banks. GB's modus operandi evolved from the concerns to provide financial access to individuals below certain asset /income thresholds and to ensure that such access is beneficial for its recipients. It is essentially a fit of the design with that of the community needs. PGB3 stated that GB's operational strategy in delivering its services are time-tested and contextually effective to achieve its programme outcomes. PGB5, being a branch manager with his daily interaction with clients, explained that the core rules are simple to communicate and implement. The unique approach to achieving fit as postulated by Donaldson (2001) in Figure 2.1, with the needs and comfort of the community (Scott, 2009), stands out clearly in GBs modus operandi.

8.3.4.1 Basic Principles

The philosophical underpinnings in Section 8.3.2 explain why, how, and to whom GB provides microfinance. PGB1 argues that credit is essentially an entitlement to resources and is to be packaged in forms and formats appropriate to particular needs of its recipients. All the informants from GB and GT (Table 8.2) emphasised the need to prioritise women and provide microfinance to put the recipients onto an income stream for maximum impact. GB selects its target clientele against specific income/asset thresholds at the point of entry. PGB2 stated this to be:

> *Fundamental to ascertain servicing the poor; entry of the non-poor because of ambiguity in selection criteria disrupts the homogeneity of groups and compromises the quality of group discipline.*

According to PGB3:

> *The implementation of SDA is an essential part of GB's lending methodology, putting the clients on a learning curve in loan management, savings, and personal and family health, and a constant urge to improve their lives as a member of a socioeconomic group.*

In addition to the above, Yunus (2007) considers it critical to maintain a c*lose relationship between GB and its members (i.e. clients), and among the members themselves to generate peer pressure, and peer support* (13) in reinforcing the development objectives manifested in SDA.

8.3.4.2 Groups and Centers: Concepts and Dynamics

Five-member homogenous Groups are the primary building blocks of GB superstructure. 5 - 7 Groups constitute a Center and a GB branch has approximately 100 Centers on an average, supervised by 6 to 8 CMs. Yunus (1983) views *Groups and Centers as independent organisations in their own rights having their own entities* (15) within GB, and explained:

> *Individually a poor person is exposed to all kinds of hazards. Membership in a Group gives him a feeling of protection. Subtle at times, the peer pressure keeps the group*

members in line with the broad objectives of the credit programme. It is very difficult to keep track of an individual borrower, but if he /she is a member of a Group it is much less difficult (Yunus, 1983:11).

PGB4 and PGB5 who interact with clients on a daily basis, argued that it is easy to monitor and supervise clients, know their loans utilisation performance, and their socioeconomic progress during the discussions in the weekly Center meetings.

The concept of leadership and teamwork starts right at the Group, where Group members elect their Group Chairperson and a Group Secretary. Group Chairpersons together elect one Center Chief and one Deputy Center Chief for each Center in a GB branch. The leadership positions within Groups and Centers rotate among the members on an annual basis. Democratic principles in decision making for common goals, and nourishing the value of negotiation involving fiduciary and non-fiduciary matters, are practiced in Group and Center meetings. The election of 9 members from among 142,659 Center Chiefs, representing about 8.8 million GB members (clients) demonstrates unity and discipline among the members; a critical pre-requisite for achieving overall goals outlined in the SDA.

Therefore, *Centers are the nucleus of GB operation* (PGB2). Other than loan disbursement, which is done in the branch office, the process of loan approval, regular monitoring and supervision, collection of repayments and members' deposits, and sharing of problems requiring resolution are discussed during weekly Center meetings. The members in a Center slowly grow as a reinforcing team supporting each other in their efforts to socioeconomic empowerment in which GB staff members act as the catalysts. The experience of GB members from managing their little microenterprises to representation on the GB board in a corporate world has empowered and raised confidence level encouraging GB members to run for public offices. GB (2012) reported that in 2003 in the Union Parishad election (local council election) *3,059 GB women members* (11) were elected. It is reasonable to argue that these transformations of the poor women beyond the four walls of their houses, could not have been possible through a credit-alone approach, and without a solid platform like GB Centers.

8.3.4.3 GB Savings Programme and Its Implication

Income is a key determinant of a person's capacity and propensity to save (Friedman, 1957; Beverly and Sherraden, 1999). GBs experience demonstrated that under proper institutional arrangement, savings by the poor can be an effective asset accumulation and anti-poverty strategy. The mandatory savings programme is critical in deepening the basis of security for the poor. Since the establishment of GB, Group Fund and Emergency Fund were the two key mandatory savings of GB, complemented by Special Savings, and Personal Savings to foster faster social and economic development.

With the maturing of GB as a financially viable and stable organisation, it transited to the Grameen Generalized System (GGS), a departure from Grameen Classic System (GCS) from *August 2002* (Yunus, 2002: 4) without compromising its essential features. GGS is also termed as Grameen Bank II (GB II). This transition is driven by technology and creative adaptation to emerging realities. The growth of GB from one village action-research project to a mega organisation with about *8.8 million members* spreading out to *more than 81,000 villages* in Bangladesh (GB, 2016: 2) needed to adapt itself to the external and internal contingencies to attain fit (Donaldson, 2001; Burns and Stalker, 1961) for maintaining its operational efficiency, and quality of its outcomes in the changing internal and external environments by combating *entropic forces to prevent organisational decline and decay*.(Scott, 2009: 472). This process of continuous renewal and creative adaptation is discussed in Section 8.3.5 on the sustainability of GB. The process of renewal and adaptation was triggered by events external to GB and exposed some of the weaknesses in the system. PGB1 argued that the massive flood in 1988, when half the country was under water for long ten weeks, had devastating effects on the GB borrowers that continued for the next several years. GB's entire system was under stress, exposing the bank to political interference and internal tensions. The rigid rules prohibiting access to GF had to be revisited (Yunus, 2002). The event was a reminder that the effectiveness and veracity of any system or a design lie in its ability to adapt to changes to maintain its internal fit with external contingencies (Donaldson, 2001; DiMaggio and Powell, 1983; Meyer and Rowan, 1977).

One of the significant changes under the GGS or GB II, was the entire saving mobilisation strategy of the bank. Under the old system (i.e. GCS), Group Fund (GF) was mobilised from an obligatory contribution of 5% from loans disbursed by the bank to its borrowers, and as well 5% deduction from loans taken from GF by borrowers. GF was like their little bank from where the borrowers in a Group could take loans at cost and terms mutually decided by members themselves. The 5% contribution to GF was called Group Tax 1 (GT1), and the loan from GF was called Group Tax 2 (GT2). The interest that accrued on GF was also deposited into this fund. Individual members did not have any claim on GF except the weekly personal contributions of BDT 1 each week into it. Any member of the Group could borrow from GF for any purpose, investment or solely for consumption. PGB1 argued that *GF protected borrowers from money lenders when they needed small loans to mitigate any immediate contingency.*

Under GGS, GB recognised that individual borrowers be given more freedom and access to the funds mobilised in GF, and therefore, did away with control of the Group in managing it. The use of the term GF was discontinued in this new arrangement. The 5% deduction from loans at source continues as before under the revised strategy. But in this instance, 50% of the total deduction is deposited into Personal Savings accounts, and the balance into Special Savings accounts of borrowers. All these accounts are interest bearing. Withdrawals from Personal Accounts are without any restriction. But Special Savings accounts are restricted for three years, and withdrawals are subject to special conditions. *These savings are termed as obligatory savings under the revised system* (PGB2). According to PGB1, another savings innovation of GB under GGS or GB II:

> *Is introduction of mandatory pension schemes with a maturity of 10 years for all the GB clients having loan amounts above a certain threshold. The scheme is funded through monthly deposits by clients.*

The programme boosted GB's deposit base, and also created future income streams for its clients with attractive returns ten years down the line.

Emergency Fund (EF) is financed through the contribution of 25% of the total interest paid by borrowers. The fund was created to provide insurance coverage for loans, welfare for Centers, and to support clients and their families in the event of death, disability or other incidents. The overriding purpose of Special Savings (SS) and Personal Savings (PS) is to encourage borrowers to further strengthen their economic security and reduce dependence on borrowed funds.

PGB1 asserted that the embedded savings programme of GB:

> *Is like an investment by its poor clients. Its multiplier effect can be demonstrated vividly in a credit programme through continuous expansion of the economic base of poor as their income rises with additional investment through borrowing.*

Since savings in GB are tied to every loan cycles, the amount increases rapidly with repeat loans by a borrower. Yunus (1983) explained the process of poverty:

> *As a vicious cycle of low income, low saving, low investment, low income,* and posited that this cycle can be reversed by injecting credit to generate *more income, more-savings, more-investment, more income* (12).

Besides strengthening the economic base of borrowers, some of the implications of mandatory savings programme explained by PGB1, PGB2, and PGB3 are summarised below:

- Developing savings habit of the borrowers as part of building an asset and investible income.
- Enhancement of self-confidence.
- Covering reasonable business risk, income smoothening due to seasonal variations and cushioning against unforeseen natural calamities.

It is pertinent to mention that the entire investment of BDT 553.16 million (USD 7 million[7]) for the purchase of 75% share of GB was sourced from the savings of GB borrowers.

In a span of three decades, savings of GB borrowers have exceeded the total loan outstanding of the bank. As at the end of January 2016, the savings balance of borrowers was 20% higher than GB's loan outstanding. Additionally, GB is allowed to mobilise deposits from the general public, giving it an enormous leverage to a faster financial self-reliance. Savings of GB borrowers *constitute about 63% of the total deposit of USD 2,383 million* (GB, 2016). Table 8.5 shows the growth of borrower savings in five-year intervals up to January 2016.

[7] Estimated at the exchange rate of BDT 78 for USD 1.

Table 8.5 Growth of Borrower Savings and Loan Outstanding since 1983

Description	Growth of Borrower Savings in five yearly Intervals (In Million USD)							
	1983	**1988**	**1993**	**1998**	**2003**	**2008**	**2013**	**2016 (Jan)**
Number of GB Borrowers (000))	58	490	1,815	2,368	3,124	7,670	8,544	8,815
Savings Balance of GB Borrowers	0.78	9	69	108	171	508	1,186	1,502
Outstanding Loans	3	23	158	254	258	646	1,086	1,255
Savings as percentage of Outstanding Loans	26	39	44	43	66	79	109	120
Per head Average Savings of GB Borrowers	1	19	38	46	55	66	139	170
Per head Average Outstanding Loan of GB Borrowers	52	47	87	107	83	84	127	142

Source: Grameen Bank Annual Reports (2011, 2012); GB Monthly Statements (2013; 2016).

The experience of GB highlights that *institutional variables are important determinants of savings within the general population, and in the low-income population* (Beverly and Sherraden, 1999: 458). Sen's (1981; 1985; 1993) works on famines and entitlements, commodities and capabilities, and Sherraden's (1991) asset-based theory of welfare, influenced many programmes in which various forms of cash and non-cash support is provided to stimulate savings, growth, participation, and family welfare (Moury, 2006; Moser, 2006). The key elements of institutional arrangement to ensure participation of the poor in wealth or income generation remains unaddressed in the core paradigm of the asset-based theory of welfare. Prabhakar (2013) argued that the asset-effect to take care of one's own welfare by stimulating savings and investments remains controversial (Bynner, 2001; Emmerson and Wakefield, 2001). Sen (1993) was more in the domain of theoretical precepts of the need for capability enhancement for availing the opportunities in the society.

Extending the above arguments further, it may be noted that saving by itself is a function of ability and willingness to save (Katona, 1951; 1975). For the income-poor, willingness to save is a mere desire, unless institutional arrangement ensures effective participation in the economic value chain for generating surplus. The strategy of savings programmes of GB helps explain and construct institutional mechanisms in which generation of savings is intrinsically embedded into the system. Some of the essential features of GB strategy can be seen in the German model that originated in 1778 in Europe (Bisen et al., 2012; Seibel, 2003).

Seibel (2003) argued:

> *Microfinance is not a poor solution to poor countries; savings driven microfinance institutions in cooperative and community ownership* are equally *feasible in rural and urban areas* (3).

Seibel (2003) implicitly suggested that microfinance that *pushed moneylenders and most private banks out of business* (3) in the late 19th century and early 20th century, is an effective way *to self-help and self-reliance, based on savings mobilization* (3) even in the developed countries.

The growth of saving banks in Germany is an example of the integration of poor and marginalised population into asset building through proper savings and credit mechanisms. While, instances of exploitative money lending by fringe lenders are seen everywhere (Banks et al., 2012; Kempson and Whyley, 1999), well-designed and financially viable microfinance organisations (Bornstein, 1997; Fuglesang and Chandler, 1993) can be effective institutional interventions to act as powerful financial inclusive strategy for low-income individuals in Australia.

8.3.4.4 Credit Discipline and its Enforcement

Credit discipline is quintessential in GB's overall efficiency. The first of the 16 Decisions of GB under its SDA reads *as the four principles of Grameen Bank: Discipline, Unity, Courage and Hard Work- we shall follow and advance in all walks of our lives* (Fuglesang and Chandler, 1993: 121), defines the conduct of a GB borrower as soon as she/he is formally included into GB's fraternity.

PGB4 and PGB5, who are Area Manager and Branch Manager, respectively, reiterated that one of the key aspects of their supervisory role is to ensure that borrowers observe strict discipline in their interactions with the bank. Alam and Getubig (2010); argued that:

> *Strict credit discipline does not exist naturally; it must be created and maintained. Borrowers, at least initially, don't like to be so disciplined. They will continually test the limits (35).*

The process starts with the selection and training of borrowers who are constantly reminded of their commitments to SDA as part of GB family for their social and economic progress. PGB4 informed that:

> *The way borrowers sit in their Group and Center meetings, repeat the commitments in the SDA and conduct loan transactions, are constant reminders of their need to adhere to the norms set by GB.*

Compliance to the credit discipline is achieved through the following process.

1) Selecting the right clients who are willing to adhere to the bank's rules and loan conditions.
2) Continuous Group training: Clients are apprised of the bank's rules and regulations and any changes thereof. During the training, they learn about their rights and obligations as members of GB, and the importance of skill development in finance, marketing and management.
3) Strict maintenance of Center discipline: Includes regular attendance to Center meetings, enforcement of peer support and peer pressure in loan utilisation, savings mobilisation, repayment, and mutual cooperation. In essence, it is imbuing a culture of voluntary collective responsibility of mutual help and support.
4) Regular monitoring and supervision by the bank's staff: Transparency of operational activities, personal interactions with the clients, understanding their problems and speedy resolution of any outstanding issues.

An effective credit discipline is demonstrated by the following indicators:

1) Attendance to Center meetings and activities.
2) Loan utilisation and repayment index: low delinquency rates.
3) Saving mobilisation progress.
4) Compliance with different commitments in the SDA.

8.3.4.5 Financial Products and Services

The lending and other banking functions that GB as a specialised financial institution is permitted to perform are detailed out in Section 19 of the GB Ordinance, 1983 (GOB, 1990). The introductory paragraph and the first two subsections read as:

> *The Bank shall provide credit with or without collateral security, in cash or kind, for such term and subject to such conditions as may be prescribed, to landless persons*

for all types of economic activities including housing, but excluding business in foreign exchange transaction, and may carry on and transact the several kinds of business hereinafter specified, that is to say, a) the accepting of money on deposit; b) the borrowing of money for the purpose of the Bank's business against the security of its assets or otherwise (GOB, 1990: 8).

According to PGB3, *any GB borrower can apply for loans to finance her/his income earning activities or microbusinesses that have the potential to generate revenue*. However, loans are sanctioned for activities that are permissive as per the law of the land. The financial products and services of GB can be classified into three broad categories (GB, 2012: 72, 73). These are:

1) Loans
    a. Basic loans, flexible loans, housing loans, education loans, young entrepreneur loans, and social forestation loans.
    b. Staff loans and advances, advance against provident fund, household commodities loans, and medical loans.
2) Deposits and Savings
    a. Members deposits: Current and savings deposits, fixed deposit, polly phone deposit, 5-year and 10-year Grameen pension scheme deposits, double in 7 and 8-year deposits, monthly profit scheme deposit, central emergency and welfare fund deposits, higher education loan insurance savings fund deposit,
    b. Non-member deposits: Fixed deposit, savings deposit, double in 7 and 8-year deposits, Grameen pension scheme 5 and 10-years for GB staff.
3) Insurance Products
    a. Loan Insurance: Loan insurance savings fund for members and employees, loan insurance fund for members, higher education loan insurance fund for the children of members, vehicles insurance or non-members

Except for housing loans and educational loans, all other loans, mentioned above, generate direct incomes for borrowers. Essentially, a basic loan is the microenterprise loan for any income earning activities, and every borrower of GB starts with a basic loan which grows year after year as she/he progresses with the business. In the process, as explained by PGB1:

If anyone falters in basic loan servicing, her/his loan is rescheduled into a flexi-loan, and the loan terms are re-negotiated. This event compromises her/his progression to higher amounts in next loan cycle.

PGB2 have elaborated on the different rates of interests being charged on GB loans. A simple interest of 20% per annum is applied to all income generating or microenterprise loans. Housing loans and educational loans carry an annual interest rate of 8%. Educational loans have an interest free period for 3 to 5 years after which 5% simple interest is charged till the loans are fully repaid. Obligatory deposits by borrowers are treated as savings, fetching an interest of 8.50% per annum. Fixed deposits and other savings earn interests ranging from 8.75% to 12% per annum depending on the nature of products.

Two types of loan insurance exist in GB. A borrower deposits 2.5% of the year-end outstanding of her/his loans into an interest-bearing insurance savings fund to pay for her/his unpaid loans and interest in the event of death anytime in the following year. This fund is non-refundable save the death of the borrower and is paid to her/his family. The other insurance product, known as animal lease insurance, compensates 50% of the borrowed amount in the event of the death of the animal, upon payment of premium @ 0.65% of loan taken for the purchase of the animal. The premium is paid each week along with loan repayments.

The financial products and services of GB are tailored to meet the needs of its borrowers. Since, GB does not provide loans for white goods, the broad loan categories at different interest rates, amply reflect the purpose of creating self-employment for its borrowers as discussed in Section 8.3.2.2. The overall strategy of GB in its design of loan products and services are geared towards financial self-sustainability of its borrowers and the institution.

8.3.4.6 Loan Approval and Disbursement

One of the important features of GB loan approval and disbursement is its participatory approach. Loan proposals are discussed among Group members and are processed in the Center meetings. This strategy serves to resolve the problem of information asymmetry, facilitate peer support and monitoring, and encourage mutual collaboration among clients. PGB4 explained that *in the loan approval and disbursement process, Area Manager is the final authority to approve all the loans except these exceeding BDT 300, 000 (AUD 5300*[8]).

[8] Assumed at the exchange rate of AUD1= BDT57

Loan disbursement takes place in the respective branches on a pre-arranged date and time. The borrower is accompanied by her/his Center Chief, and another witness from the Group or the Center. The entire process from *loan approval and disbursement takes two weeks to complete* (PGB5). Figure 8.4 illustrates the loan approval and disbursement process in GB.

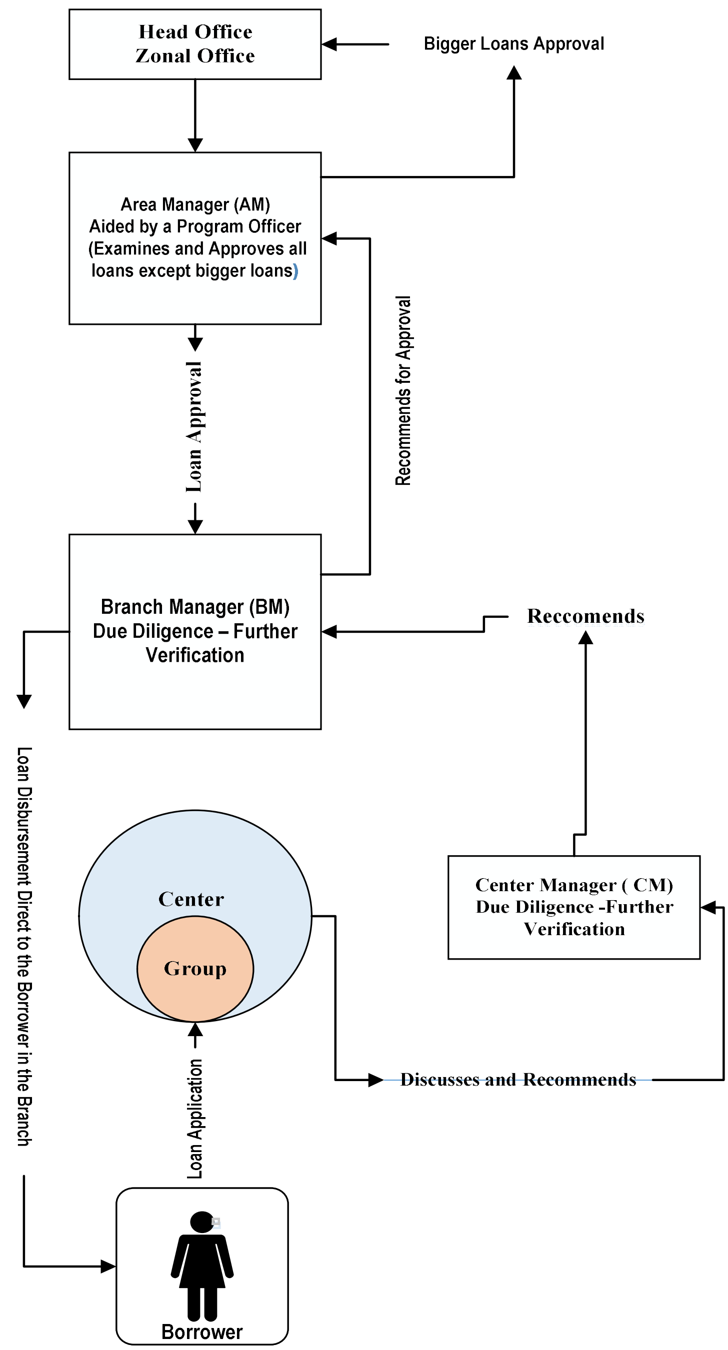

Figure 8.4 Loan Disbursement and Approval Process in GB

Source: GB internal documents, semi-structured interviews, and site visits.

The loan approval and disbursement strategy is synchronised with the GB's supervision regime (see Figure 8.2), and its Monitoring and Evaluation system (Ref Figure 8.3) defining roles and obligations of different tiers of management, and borrowers of the bank. A borrower becomes part of this participatory process from the moment she/he is formally accepted as a member of a GB Group in a Center. Upon availing a loan from GB, she/he becomes an integral part of a reinforcing *socioeconomic formation* in which the participants are *socially and economically accountable to each other* (Fuglesang and Chandler, 1993: 39).

8.3.4.7 Delinquency Management

In a microfinance organisation (MFO) with small loan sizes, high delinquency not only impedes *financial viability* (PGB2), it is *also an indication of a systemic flaw in its design and, or laxity of supervision* (PGB1). Microfinancing, following the GB model, is a highly-supervised credit in which participatory management of a credit programme is embedded into its oversight strategy. PGB2 stated that:

> *GB monitoring reports could easily forewarn loan defaults as revealed by indicators like trends in attendance at Center meetings and lapses in payments of regular or agreed loan instalments*.

PGB4, explained the above two indicators to be:

> *Proxies, suggestive of loan diversion, temporary cash flow problems, serious illness in the family, loss of capital due to natural disaster, or any unforeseen events, or willingly opting to get out of the programme. Members of an ideal Group and a Center are aware of individual borrower's strengths and weaknesses, and therefore, can assist the bank, and relevant borrower in mitigating problems associated with loan defaults.*

Peer monitoring and peer support are encouraged among borrowers. PGB3 explained:

> *An interactive and supportive Group is an asset for the Center and the Branch to keep low loan defaults and higher socioeconomic outcomes. The weekly Center meeting is a platform where borrowers, not only undertake routine debt servicing and other financial obligations; it is also a discussion forum where members share their experiences, their problems, and seek advice and support from each other.*

The Center Manager (CM) facilitates discussion among members in a Center. PGB5 argued that *transparency is the key to tracking real problems, pre-empt remedial actions, and makes supervision by the bank easy and efficient.*

GB recognises that microentrepreneurs might not always be able to service financial obligations on time due to many factors beyond their control. For this reason, GB has put in place a number of road management procedures. For example, a borrower on a weekly payment schedule missing ten consecutive instalments shall have her/his entire amount treated as overdue. For those *on fortnightly and monthly installments*, it is the *missing of five and three consecutive installments* respectively (GB, 2012: 58). PGB5, however, clarified that:

> *Treating and provisioning for overdue loans by GB do not affect the calculation of its on-time loan recovery which is computed as a percentage of actual loan recovered against the amount recoverable.*

In addition to the social-capital (Rankin, 2002; Sinn, 2013; Besley and Coate, 1995) that a group-based microfinance programme generates, the in-built savings programme funded through obligatory contributions by GB members deepen their material security. The insurance programmes of GB, are stand-in cushion for struggling borrowers or those in temporary hardship, to help service their debts.

8.3.5 Sustainability of GB

Sustainability of an organisation is generally viewed from two perspectives: institutional and financial. In the case of microfinance organisations (MFO), Robinson (2001) identified two approaches to assess the sustainability MFOs: poverty lending approach and financial systems approach. The former, also called welfarist approach (Moon, 2009; Woller et al., 1999), is microlending at a fair and affordable price. In this instance, sustainability of microfinance is measured in terms of:

> *The high value of its impact defined as the difference that the intervention makes in relation to its intended target compared to what would have happened without any intervention* (Burkett and Sheehan, 2009: v, vi).

The financial systems approach, or in other words, institutionist approach (Morduch, 2000) posits financial viability of the MFO to cover its cost while servicing its clients. The underlying rationale and apparent conflict between these approaches were elaborated in Section 5.4 of this thesis. That is, the distrust held against a business-focus approach is regarded as compromising social outcomes and bypassing the non-entrepreneurial poor. The rationale for financing for self-employment and income generation is provided in 8.3.2.2.

Yunus (1997), however, argued:

> *In many cases, self-employment is the only solution to help the fate of those that our economies refuse to hire and which the taxpayers do not want to carry on their shoulders* (5).

PGB3 pointed out that millions of poor borrow from fringe markets at exorbitant interest rates, and therefore, self-sustainable institutional mechanisms, *applying business principles to solve social problems* (Yunus et al., 2010; Yunus, 2009) are essential *to de-capacitate the money lenders* (Yunus, 1983: 14). PGB1 asserted:

> *GB is a social business by virtue of its ownership structure. If a big bank like GB can be owned by the poor women in Bangladesh, any big company can be owned by poor people, if we seriously come up with ownership management models.*

Social business falls within the institutionist approach of microfinancing. Institutional and financial sustainability of a social business are inherent in its business model. Yunus (2009) posited that:

> *A social-objective driven project that charges a price, or a fee for its products or services, but cannot cover its costs fully, does not qualify as a social busines*s (23).

Therefore, the sustainability of GB is explained and understood from the perspectives of its dual objectives to achieve social outcomes and self-sustaining operation.

8.3.5.1 Institutional

Institutional sustainability is essentially an organisation's ability to deliver services on a sustained basis under changing socioeconomic conditions. Huntington (1968) explained sustainability as *a process by which organisations and procedures acquire value and stability* (12) in delivering goods and services economically and efficiently.

Spangenberg (2002) identified *four dimensions of sustainable development: social, economic, environmental and institutional* (104). Despite being separate, the dimensions are endogenous in their overall matrix of sustainable outcomes. An institution derives its legitimacy and effectiveness from its physical and socioeconomic environments that include bio-diversity, economic management, political ideology, and sociocultural aspirations. Scott (2009) conceptualised the phenomenon of institutional environment (see Table 2.1) in three *pillars of institutions* (465) as the foundation of an institutional building process.

Since its establishment as a separate financial institution in 1983, GB has stood the test-of-time in a country ridden with political instability, a highly interventionist and patron-based rural credit market, and crop failures due to natural calamities, (Khalily and Meyer, 1993; Nasrin and Sarker, 2014; Gregory et al., 1989), with resultant loan diversion and high default rates. GB's performance as demonstrated by its consistently high recovery rates, and the ability to cope with outside interference and natural calamity can be attributed to its flexibility to adapt quickly to changes inherent in its overall institutional strategy (see Section 8.3.3), and modus operandi (see Section 8.3.4).The introduction of GGS, popularly labelled as Grameen II, following the unprecedented *flood in 1998* (Yunus, 2002: 1) was regarded by PGB2 and PGB3, as an innovative strategic response by GB, and reflected the bank's institutional resilience, and agility to respond to challenges. PGB1 recalled:

> *During the flood, half the country was under water for eleven weeks, and like many other people, GB borrowers lost their homes and meagre capital; loan recovery showed quick decline, and GB was on the verge of collapse.*

Reflecting on GB, Yunus (2007) identified a number of factors essential for the overall design and strategic approach, relevant to its institutional sustainability. These can be summarised as follows:

1) Close relationships between the bank and its borrowers;
2) Group and its dynamics (peer pressure and peer support, a socioeconomic formation);
3) Continuous training and development of staff and borrowers;
4) A highly decentralised organisational structure with mutual accountability and support;
5) Participatory decision-making processes;
6) A culture of problem-solving through creativity and innovation; focussing on women; and,
7) A real-time interactive monitoring and evaluation system.

The efficacy of GB as a sustainable institution can also be understood as a *socioeconomic formation* (Fuglesang and Chandler, 1993: 39) that underpins the implementation of SDA through a process in which credit/finance for self-employment or income generation is a critical input. Spangenberg's (2002) four dimensions that predicate sustainable development are integral to this process and are expressed as Sixteen Decisions that comprise the SDA of GB.

In a *society with patrilineal descent and patrilocal residence with strict enforcement of purdah i.e. the practice of women's seclusion* (Hashemi et al., 1996: 636), relegated most of the women to domestic chores and confined them into their homesteads. The GB strategy, replicated by many community development and microfinance organisations in Bangladesh, slowly transformed female isolation and confinement. Now, women constitute the absolute majority borrowers in GB and other microfinance organisations in Bangladesh. It has been a bottom-up participatory process, a continuous learning experience towards sustainable social and economic progress.

The *departure of Yunus in 2011* (GB, 2011: 2) and the High Court verdict terming GB as a government organisation opened up possibilities of bureaucratic tangles and political meddling (Al-Mahmood, 2013; PTI, 2011) with the resultant lack of innovation, creativity, and dynamism; essential features of GB's work ethic and culture. Yunus (2011) also voiced similar concerns in his written address to his colleagues on the eve of his stepping down from the position of the Managing Director. The vulnerability of GB as an institution, as it appears from the incidents leading to the departure of its founder, is inherent in its very nature. As an organisation, it is more complex than a bank or an institution that deals in fiduciary transactions. GB is, in essence, a transformative agent through which *people create new social and economic environment for themselves* (Fuglesang and Chandler, 1993: 39). Therefore, to sustain its achievements, its leadership requires creativity and innovation, the need to avoid being bureaucratic in solving problems, and to steer clear of any events with political consequences.

8.3.5.2 Financial

Financial sustainability or in other words, viability, indicates an organisation's ability to generate a surplus, or consistently cover its cost of operation *without undergoing interminable negotiations with donors* (León, 2001: 7). Khandker et al. (1995) undertook a study under the aegis of the World Bank to investigate the institutional, economic and financial viability of GB, and concluded:

> *The Grameen Bank has proven that financial intermediation can alleviate poverty. Given its operational cost and sources of funding, the Grameen Bank is financially viable* (81).

Following the establishment of GB as a separate financial institution, and during the early years of its major growth spurt from 1989 onwards, GB received a substantial amount of donor fund at a very low cost, helping the bank to attain a stable base for its financial viability. Khandker et al. (1995) reported that GB received economic subsidies, that is, the difference between the actual cost of fund and its opportunity cost (Yaron, 1992) during 1989 to 1993. As at the *end of December 1989, about 91% of GB resources were from foreign sources* (Khandker, 1996: 74) with an interest rate as *low as 2% per annum* (GB, 2011: 66,67). All the loans were long-term and were payable in local currency to the Government of Bangladesh without having the risk of foreign exchange fluctuation. At the end of 1993, *58% of GB resources were from foreign sources, of which about 35% was in the form of grants* (Khandker et al., 1995: 22). PGB3 explained that grants were used for financing construction of new branches, area and zonal offices, additional floor space in the head office, purchase of vehicles, furniture and equipment, training of new recruits including new intakes of borrowers, operational and capital costs for GB's monitoring and evaluation, and undertaking research and development activities during the expansion phase, popularly known as Phase III (GB, 1988a).

Khandker (1996) argued that owing to the receipt of subsidised loans and grants; GB enjoyed an *economic subsidy of 4 to 22 per cent per unit of the loan outstanding during 1989-1993* (74). The profits that GB earned before 1993 were attributed to the economic subsidy inherent in its funding mix as the effective interest rate of the bank fell short of meeting its high operating cost fuelled by rapid programme expansion, and high administrative and training costs. However, with an upward adjustment of the on-lending rate for its income generating loans from 16% to 20% from 1991 onwards, coupled with increased loan disbursement and savings, during 1989 – 1993, GB steadied its financial viability from 1994 onwards.

According to PGB2, PGB3, and PGB4, financial viability of an organisation like GB depends on factors like optimum number of borrowers in a branch, the per-head loan size, on-lending rate of interest, near perfect recovery rate, an ability of borrowers to generate income, growth of savings, and staff productivity (i.e. the number of borrowers, a CM supervises). PGB4 reiterated that *a branch is the primary pillar for GB. Therefore, its viability is indispensable for the overall viability of the bank.*

PGB4 mentioned six important criteria necessary for a GB branch to be viable. These are:

1) *At least 600 active borrowers or 12 Centers under each CM;*
2) *Near 100% loan recovery;*
3) *Strict compliance to SDA;*
4) *Mobilisation of obligatory deposits;*
5) *Constant loan supervision; and*
6) *A gradual increase of per head loan size.*

The increase of per head loan size is dependent on the ability of a borrower to utilise money and generate profit. Borrower dropout rate was cited by Khandker et al.(1995) as one of the key indicators in assessing the overall health and viability of a branch. The borrowers' dropout rates for both male and females, were below 5% during 1986 to 1994. The consistent expansion of GB since 1994 from a borrower base of 2.30 million to 8.8 million and a per head savings to outstanding loans being about 120% at the end of January 2016 demonstrate the progress of GB borrowers regarding asset accumulation, an indicator of economic solvency. PGB1underscored the need for:

> *Allowing microfinance organisations (MFO) to mobilise public deposits for fast-tracking their financial self-reliance, and deplored that in many countries, regulations do not permit MFOs to take savings even from their borrowers.*

Table 8.6, showing the GB's revenue mix highlights this emphasis on deposit by MFOs to attain faster financial viability.

Table 8.6 Revenue Mix of GB during 2010, 2011 and 2012 (In Million USD)

Description	**2010**		**2011**		**2012**	
	Operating Income	%	Operating Income	%	Operating Income	%
Net Interest Income	46	38	46	34	48	30
Other Income	75	62	89	66	114	70
Total Operating Income	121	100	135	100	162	100

Source: GB Annual Reports 2010, 2011, and 2012.

Table 8.6 shows that revenue from sources other than interest income from loan operation increased much faster in the three years following 2010. At the end of 2012, the total revenue from other sources constituted 70% of the total operating income of the bank. From the statements of liquidity of GB as at the end of December 2011 and 2012, its total loans and advances constituted *64% (2011:54) and 61%* (2012: 54) respectively of deposits and allied funds. The trend shows GB's reliance on deposit mobilisation for loan operation. While the entire loan operation of GB is now being financed by its borrowers' savings, its excess liquidity is invested in shares, fixed deposits, and in mutual funds to harvest additional revenue.

As per statutory requirements promulgated in the Bank Company Act 1991 (GOB, 1991), all commercial banks in Bangladesh must maintain a 6% cash reserve requirement (CRR) and 13% statutory liquidity reserve (SLR) in cash, and other unencumbered approved securities. Considering the liquidity strength of GB, these financial obligations can be met easily, though no such requirement is mandatory for GB. PGB2 claimed that

> *GB's loan portfolio is more secure than commercial banks as its clients are a well-organised group of micro-entrepreneurs, supervised through a process of mutual accountability and enforcement of principles that guard against loan diversion. This feature of GB encourages savings and socioeconomic wellbeing of its clients.*

Unlike not-for-profit microfinance organisations, GB is a full-fledged specialised bank catering to the credit needs of low-income individuals unable to meet the conventional collateral requirements. The primary sources of its on-lending fund are the deposits from its borrowers and non-borrowers. Evidence suggests that currently GB is well funded and can meet the statutory obligations required under its Ordinance and have sufficient liquid assets to carry out its loan operation independently.

8.3.6 Impact of GB

Littlefield et al. (2003) concluded:

> *Millions of microfinance clients around the world demonstrate that access to financial services enables poor people to increase their household incomes, build assets, and reduce their vulnerability to the crises that are so much a part of their daily lives. It has made women clients more confident and assertive and thus better able to confront gender inequities* (1,2).

The philosophical underpinning of credit being treated as a human right and used for self-employment (Yunus, 1987b), dispensed mainly through women, defines not only the overall strategy of GB but also its intended outcomes.

Khandker (1996) reported:

> *Household survey data clearly show that Grameen Bank helps to alleviate poverty and increase resources, both physical and human. It also empowers women economically. Therefore, poverty alleviation and human resource development are possible with targeted credit* (84).

The very nature of GB as an institution and the way it operates, the multiplier effect of its loans and associated services are transformative. Though, GB started as an effort to provide small amounts of working capital to village men and women, it soon became a socioeconomic movement providing an organisational framework for its clients for entering into a participatory process. According to Fuglesang and Chandler (1993), *access to, and control of a resource is the first step. All other development follows in the process* (240). About two decades later, Khandker and Samad (2014a) revisited the earlier study by Khandker (1996) using household survey data over a twenty-year period reconfirming the poverty alleviation outcomes of GB microfinance approach. Schmidt (2008) was unequivocal in his description of *microfinance as the most humane part of the international financial system, perhaps even the only humane part* (1).

Against the above backdrop, the impact of GB is discussed here under two broad headings: financial inclusion, and poverty alleviation.

8.3.6.1 Financial Inclusion

As a social business (Yunus, 2009; Yunus, 2010; Yunus et al., 2010), GB combines both poverty lending and financial systems approaches in its overall financial inclusion strategy discussed in Section 5.3. Therefore, for effective social outcomes, financial products and services have been tailored to the needs and suitability of GB's target clientele without compromising financial viability of the organisation. According to PGB3

> *The loan eligibility criteria, and the modus operandi requiring Group formation, Center discipline, mandatory savings and insurance programmes and SDAs, discourage economically wealthy people to approach the bank for loans.*

According to PGB 2, as per the existing policy of GB, its 8.8 million borrowers represent a similar number of families. With an *average household size of 4.5* (NIPORT et al., 2016: 19), the total number of people impacted by GB operation was about 39.6 million, that is, about 25% of the entire population of *158.5 million* as at the end of 2014 (ESCAP, 2014: 43). One of the key contributions of GB, according to PGB2 and PGB3, is the extension of loans and financial services to women in rural areas of Bangladesh who now constitute more than 96% *of GB borrowers* (GB, 2012: 12). This segment of the Bangladesh population was totally *outside the orbit of any institutional finance before the intervention by GB* (PGB1). The overall financial inclusion in the country was about *56% of total population and 87% of the adult population* (Islam and Mamun, 2011: 10) at the end of 2010. A national household survey in 2011 reported an aggregate access to financial services to be about 77% of the total population (Khalily, 2011). The massive expansion of microfinance operation in rural Bangladesh following GB's example have opened up credit, and savings services to millions of poor men and women hitherto denied any form of credit by the formal financial intermediaries. The informal exploitative money lending in the rural areas is also reportedly reduced to about *29%* (Islam et al., 2014: 24) in the last three decades due to the expansion of microfinancing by GB and other MFOs in Bangladesh. The successful launching of a microfinance programme exclusively for "the beggars" in 2002 (GB, 2012) was a milestone in the history of financial inclusion. PGB2 reported that, of the total members of *110,902* (GB, 2012: 10) under this programme as at the end of 2012, *about 30% have already graduated to be regular GB borrowers.*

Financial inclusion, *a key element of social inclusion* (Rahman, 2009: 1), is an instrument of distributive justice (Tarapore, 2010; Sud and VanSandt, 2011) that facilitates institutional access to opportunities in creating a fair and just society. In this instance, inclusion is meant to be an active partner in the social and economic value chain with resultant enhancement of one's capabilities (Sen, 1993; Sen, 1999b) in making the participation effective and rewarding. The institutional mechanism pioneered by GB in its financial inclusion strategy encompasses a broad vision of socioeconomic change in which finance, is but an input, sparking the process. PGB1 asserted:

> *Credit creates an entitlement to resources, and with appropriate credit policies; it is possible to shape a society into the desired form. Properly packaged microfinance equips a dispossessed person to fight against socioeconomic odds around her or him.*

The impact of GB, seen in the light of financial inclusion, captures a partial view. It is reasonable to see its impact beyond the façade of a bank or a financial institution. Yunus (1983) insisted that *institutional preparation is extremely important for credit to be useful* (9) as Yunus views poverty as *a consequence of the institutional arrangement created by the powerful*

(Fuglesang and Chandler, 1993: 13). The entire design that underpins the GB's strategy is akin to a participatory process responsive to both financial and social needs of its clients for transforming their social and economic conditions. Therefore, poverty alleviation, as an impact in this discourse, is construed as sustained progress in the overall wellbeing of GB borrowers.

8.3.6.2 Poverty Alleviation

The social development agenda (SDA) of GB, popularly known as the Sixteen Decisions, is found to encapsulate the pathway to the socioeconomic well-being of its borrowers. Citing ten indicators mentioned in Appendix 9 used by GB to assess the number of borrowers escaping poverty as part of impact assessment, PGB2 informed that:

> *More than 70% of its borrowers have crossed the threshold of poverty, and remaining 30% are at different stages of their social and economic progress as at the end of 2013.*

PGB7, a borrower of GB since 1988, explained her journey with GB, in the following words.

> *Like many others, I joined GB after the flood of 1988. I was a maidservant in a house in Mohammadpur and could hardly manage two full meals a day. My first loan from GB was BDT 1,500 (AUD 25[9]) for fish trading. After 26 years, I now have my shop selling fish and a grocery shop run by my son. We now live in a two-storied brick house with the concrete floor, and rent out one of the levels that gives me an additional income. My husband and two of my sons work full time in the fish business. I am able to borrow BDT 500,000, and pay it in instalments without any problem.*

The other four informants (i.e. PGB8, PGB9, PGB10, and PGB11) also shared and expressed similar experiences. Independent studies by Ray (1987), Todd (1996b), Gudrun and Osner (1992), Osner (1997), and Bornstein (1997), to mention a few, in which individual stories of GB borrowers were featured, also provided empirical evidence of escaping poverty.

Poverty is multidimensional (Alkire and Emma, 2010; Anand and Sen, 1997), and in many instances, women and children have been the worst victims (Kabeer, 1996; SDSN, 2013; Jackson, 1996). The strategy of GB was found to be relatively more effective (Hulme and Moore, 2006; Morshed, 2014; Goldberg, 2005) in comparison to many other donor-driven and state-run poverty-focussed programmes (Quibria, 2010; Afsar, 2003) in Bangladesh. PGT1

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[9] Assuming an exchange rate of AUD1 = BDT 33.23 in 1988 (http://www.u16201083.onlinehome-server.com/currency- converter/bangladesh-taka-bdt_aud-australian-dollar.htm/1988).

was emphatic on using market-based principles to deliver financial services for maximising social objectives. The integration of SDA in GB's operational strategy helped to maintain a focus on social benefits as an essential component of socioeconomic progress. Figure 8.5 shows this process of embedding SDA as an integral component of the design. The figure explains members' mutual obligations in a Center, and individual responsibility of investing the loans to generate income and savings while complying with the obligations contained in the Sixteen Decisions, or the SDA of GB. The SDA underscores the importance and the need for using credit and savings to achieve financial inclusion and poverty alleviation outcomes.

PGB2 insisted that the direct results of SDA are demonstrated in the *election of GB borrowers in local bodies* (GB, 2011: 11), an example of social recognition by being able to represent the people in their localities. On a wider lens, the impact of GB can be seen in the enlistment of the children of GB members/clients in compulsory education (Bhuiyan et al., 2013; Yildirim, 2009; Littlefield et al., 2003), avoidance of child marriages and dowries, keeping family size small (Schuler and Hashemi, 1994; Rouf, 2012), an awareness to following healthy lifestyles, and living in better houses in clean environment (Ara and Seddiky, 2015), women empowerment (Rouf, 2011; Kumar et al., 2013; Pitt et al., 2006; Sanyal, 2009) and aspiring to be self-reliant through savings and bigger investments (Yunus, 1983; Isa, 1992; Hassan and Renteria-Guerrero, 1997).

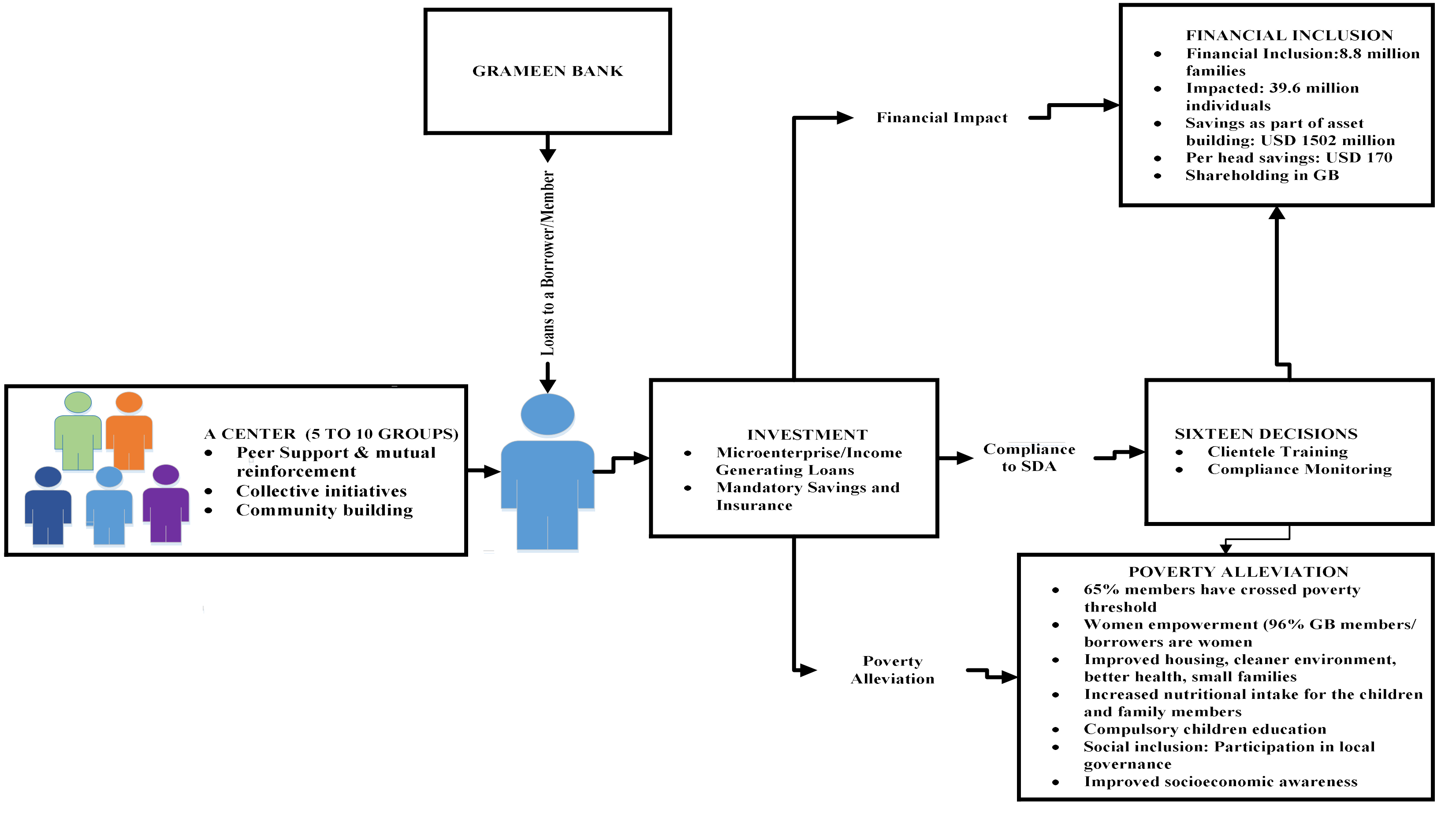


Figure 8.5 Schematic Diagram showing GB Impact in the Lives of its Borrowers

Source: GB internal documents, various impact studies, and field visits.

According to PGB3, *the poor are confronted with barriers; both socioeconomic and systemic, in their fight against poverty*. Therefore, a multipronged strategy incorporating both social and economic dimensions of poverty has a high scope of success. While credit to the GB borrowers is akin to a monetary weapon, SDA is a reminder of their needs and priorities forming part of their efforts to overcome the obstacles that need to be overcome. This nature of GB makes it distinct from a conventional bank concerning its moral and ethical underpinnings making it a change agent, *a socioeconomic formation* (Fuglesang and Chandler, 1993: 39). The compliance with SDA is regularly discussed during the clientele training programme and monitored on an on-going basis as part of ensuring programme benefits.

8.3.7 Replication of GB

The reputation of GB has made *microfinance one of the largest development programmes worldwide, both in financial terms and in relation to the number of people targeted* (Rooyen et al., 2012: 2249). While direct replication under the aegis of GT *was 9 in 9 countries, including in the USA* (GT, 2014b: 15), *many other models are extensions of, or, are derived from the GB model* (Guntz, 2011: 9). In addition to direct replication, PGT1 stated that GB has a partnership with *151 organisations, in 41 countries, servicing about14 million clients globally.* To encourage the use of microfinance as a poverty eradication tool, the United Nations (2004) declared 2005, as the International Year of Microcredit. In the 6th edition of Microfinance Market Outlook, Hug (2015) reported that:

> *About 500 of a total of 10,000 global microfinance institutions have the necessary processes in place to operate professionally and economically* (32).

Global mushrooming of microfinance organisations brought in its wake the issue of quality and impact (Rooyen et al., 2012; Bateman, 2015; Esguerra, 2012) as discussed in Section 8.3.8 (Critique of GB). Despite GB being the key inspiration for adopting microfinance approaches, within and outside Bangladesh, as a poverty alleviation and financial inclusion tool, there is evidence of innovations in product design, modus operandi, and organisational arrangements. Some of these innovations imply significant departures from the key concepts and best value principles inherent in the GB model. Variations across countries and among different microfinance organisations can be construed to be natural outcomes of adaptive process owing to contextual factors and the motivation of practitioners. Even within Bangladesh two of the reputed microfinance providers like ASA (Association for Social Advancement) (Fernando and Meyer, 2002; ASA, 2015) and BRAC (Bangladesh Rural Advancement Committee) (Halder, 2003; BRAC, 2014), compared with GB, have variations in their organisational design, modus operandi and even the rates of interest and service charge, in conducting their microfinance activities (Rahman et al., 2012; Porteous, 2006). For GB (a specialised bank) and ASA, registered as a non-government organisation (i.e. an NGO), microfinance is central to their financial inclusion strategy in which SDA is embedded to achieve maximum programme outcomes. In the case of BRAC, microfinance is one of the important interventionist inputs in its overall development programmes (Amin and Sheikh, 2011).

8.3.7.1 Key Issues in the Adaptation Process

All organisations derive socioeconomic legitimacy from the institutional environment in which they evolve, and achieve efficacy for their operations by responding and adjusting to societal needs. Similarly, GB is the product of its environment, and since inception, more than three decades ago, it has continually innovated and adapted itself to the changing socioeconomic needs and priorities to maintain its efficiency as an organisation. The *Three Pillars of Institutions* (see Table 2.1) framework of Scott (2009: 465) explains this process of organisational growth, sustenance, and adaptation. Scott's (2009) three-pillars paradigm is complemented by the *Structural Adaptation to Regain Fit or SARFIT* model (see Figure 2.1) of Donaldson (2001: 182) expounding the causality between an organisation's structure, and internal and external contingencies to deliver efficiency to achieve fit.

While institutional theory (Scott, 2009) and contingency theory (Donaldson, 2001) of organisations, explain the adaptive process in different social and economic settings (Burton et al., 2013) to achieving programme outcomes, *mission drift occurs when key concepts and core design elements are compromised* (PGB1). Experience of poverty is similar in all societies, but variations of intensity depend on the relative nature of deprivation and inequality (Chen and Ravallion, 2012; Whiteford, 2013). Therefore, for effective replication, preparation is arguably a critical part of using the best value principles and the time-tested concepts of the GB approach. PGB1 emphasised on the preparation phase, preceding an actual replication. He (PGB1) suggested the replicators to have a clear understanding of the following seven important issues before venturing into replicating the GB approach:

1) The process of poverty, its depth and extent in specific regions or locations;
2) The legal and regulatory environments;

3) The nature of the poor and their needs;
4) Client selection criteria;
5) Group formation and dynamics of its operation;
6) Staff and client training; and
7) Determining some concrete social and economic indicators to enable the measurement of programme outcomes.

Yunus, as cited by Counts (1997), cautioned that:

> *People misunderstand Grameen because the basic concept is deceptively simple. The reality is that when it is implemented it is a very long drawn-out process* (128).

The above perception might help to explain why global microfinance replication culminates mixed results (Shams, 2005; Pickering and Mushinski, 2001; Mitra, 2007; Hilson and Ackah-Baidoo, 2011). On this issue, PGT1 clarified:

> *If one looks closely, it will be seen that many microfinance programmes, inspired by GB have significant departures from GB approach in programme designs and modus operandi.*

PGT1 identified four key impediments in effective replication of GB. These are: *lack of targeting* (i.e. servicing wrong clients, or non-poor with adverse impact on credit discipline); *unfavourable macro policies* (i.e. prevailing regulations, reliance on NGOs or charity organisations, government policies and undue political interferences); a *lack of business-focus approach;* and *inappropriate design* incapable of addressing the socioeconomic needs of clients. Both PGB1 and PGT1 were of the opinion that during the adaptive process the sociocultural differences could be mitigated by appropriate calibration of design and its essential features. However, a lack of regulatory support in many countries including the USA is regarded as a key barrier to the growth of microfinance social business. PGB1 noted:

> *In Bangladesh, we are a bank, and in the USA, GA is an NGO and not allowed to operate as a bank. It is prohibited to take savings from its borrowers, making it dependent on someone else's money and constraining its growth as a self-sustaining organisation.*

Sharing the replication experience of GA in the USA, PGT1 informed that:

> *All the essential elements of GB, like group formation, the concept of peer pressure, mobilisation of savings to create assets are being followed with slight modifications. Even GA borrowers have developed their SDA for themselves.*

PGB1 contended that *if the barriers to savings in the USA could have been lifted, Grameen America (GA) could have been expanded overnight without having to rely on donor and low-cost funds.*

8.3.8 A Critique of GB

GB receives both accolades and criticism for outcomes of microfinance operations anywhere in the world. Microfinance organisations (MFOs), set up to generate self-employment with poverty alleviation outcomes, are either GB inspired, or modified adaptations of the GB model (Guntz, 2011). In this section, the present critique is used regarding the impact of GB on its borrowers, and the institutional viability of microfinance organisations.

One of the fundamental premises of socioeconomic empowerment of women through access to credit for income generation is often challenged (Onyuma and Shem, 2005; Sengupta, 2013; Karim, 2008). Karim (2008) argued that despite a majority of GB borrowers being women, the actual loan is used by *the husband or the male kin* in the household (14). The implicit notion is that in a deep-seated patriarchal and patrilineal society in Bangladesh, women are not the real beneficiaries, but are mere conduits that fit into the *western aid mandate of targeting women in development* (Karim, 2008: 15). Yunus and Jolis (1998) however, explained that loan utilisation is a joint effort of the family members who are stakeholders in the socioeconomic mandate contained in GBs Sixteen Decisions (i.e. the SDA). This principle of household members' participation is supported by interviews with GB borrowers.

In addition to the issue of gender leaning in GB's microfinancing strategy, a number of the oft-cited criticisms of microfinance are: the entrapment of clients into an endemic debt-cycle (Karim, 2011; Taylor, 2012; Mosley, 2001; Schicks, 2012; Viada and Gaul, 2012); high interest rates (Yee, 2015; Wong and Richards, 2014; Roodman, 2010; Mitra, 2009; Fernando, 2006); non-standard and often coercive loan recovery practices (Solli, 2015; Karnani, 2009), sidestepping non-entrepreneurial poor; and hyping the impact of poverty alleviation in the lives of microloan recipients (Walt, 2012; Mahajan, 2005; Karnani, 2007). Yunus (2003) explained:

> *Microcredit is not a miracle cure that can eliminate poverty in one fell swoop. But it can end poverty for many and reduce its severity for others. Combined with other innovative programs that unleash people's potential, micro-credit is an essential tool in our search for a poverty-free world* (171).

Rahman (1998) attributed four factors for the debt spirals associated with many GB borrowers. These are loan diversion by borrowers; seasonality of income streams; sudden family crises (i.e. death or illness); and natural calamities. These factors often result in a shortage of income to enable servicing of loans. Rahman (1998) reported that many borrowers mitigated the situation by borrowing from extraneous sources like relatives, loan peers, moneylenders, or availed multiple loans and continuously adjusted and renewed. The above circumstances often entrap a borrower into a situation of credit pyramiding or spiralling. An extensive study by Ask et al. (1997) on cross-financing resulting in *credit escalation, and credit pyramiding and ultimately a debt tra*p (1) was found among GB borrowers, though not widespread. Ask et al.(1997) observed that cross-financing by GB members occurred due to relatively easy access to multiple loans by a borrower in the event of cash flow problems accentuated due to factors cited by Rahman (1998). The restructuring of multiple income generating loans in 2002 into *one prime loan product* (Yunus, 2002: 6) has, according to PGB2, stopped the tendency of *cross-financing* within the GB system. This, however, has not eliminated the possibility of cross-financing, or loan pyramiding precipitating into a debt spiral as a result of systemic flaws related to many MFOs.

High interest rates (MacFarquhar, 2010) charged by many MFOs draw heavy criticisms. Chowdhury (2009) and Guntz (2011) reported that such rates can be as high as 100% per annum. Despite calls by Yunus (2006a) to restrict the interest rates *within 5 to 10 percentage points above the commercial rate, beyond which it would enter the money lenders world* (21), proponents like Fernando (2006) from the Asian Development Bank (ADB), Duval (2006) from the Consultative Group to Assist the Poor (CGAP), Morduch (2008), and Chowdhury (2009) argued that high interest rates for microfinance lending are essential for financial sustainability and future growth of the sector. Robinson (2001) and Chowdhury (2009) claimed that interest rates of MFOs are lower than fringe lenders that opened up new avenues for funding source, weakening the power of money lenders. Fernando (2006) considered comparing microfinance interest rates with commercial banks and subsidised lending organisations to be inappropriate, and argued that GB received subsidies during its initial years of growth, enabling it to maintain an interest rate of 20% on a declining balance, and this rate should not be compared with MFOs that did not receive similar subsidies. Therefore, the high interest rates of MFOs that have the potential to mission drift in an ongoing debate on microfinance all over the world, led to the commercialisation of microfinancing (Rhyne and Busch, 2006), a clear deviation from GB's social business approach. Yerramilli (2013) pointed out that Vikram Akula, the founder of SKS Microfinance in India, transformed the company into a for-profit non-banking financial company (NBFC) which ultimately compromised the interest of the poor. According to the Chairman of the Indian Microfinance Institutions Network, quoted by Biswas (2010), in a BBC news website that *the crisis triggered due to multiple lending, over-indebtedness, coercive recovery practices and unseemly enrichment by promoters and senior executives of microfinance organisations.*

Bateman (2015; 2014; 2009) accused Yunus and GB for any negative impacts associated with MFOs anywhere in the world, be it due to ineffective operational strategy, or were related to high-interest based commercial microfinance organisations like Mexico's Banco Compartamos, and India's SKS Microfinance. This situation requires GB to clarify its position frequently in order to steam off the ire of critics.

Another criticism of GB is its exclusion of non-entrepreneurial poor, and people with physical disabilities. These groups need direct primary assistance to alleviate their hardships (Morduch and Wagner, 2002). However, Chowdhury (2009) argued that GB's strategy of self-employment for financially excluded, unemployed, and poor individuals is viewed as an important safety-net task in non-welfare states enabling the cash-strapped people to avoid borrowing from money lenders or other informal sources at unfavourable terms.

Despite the reported evidence of positive impact of GB in helping to alleviate financial inclusion and poverty as discussed in Section 8.3.6, there are cases of failure as the poor operate from a very narrow economic base. Any incident of illness, a natural calamity or loss of capital tends to be regressive. For example, *many GB borrowers lost most of their possessions, including their houses because of the flood in Bangladesh in 1998* (Yunus, 2002: 1). It often becomes challenging for poor borrowers to overcome such economic shocks without effective custom-made programmes to rehabilitate them. However, the incidents of microfinance borrowers not benefitting from the GB inspired programmes are often reported. For example, the Department for International Development (DFID) funded study by Rooyen et al. (2012)

on microfinancing in Sub-Saharan Africa, cited instances of *increased poverty and disempowerment of women* (2259) with resultant hardship for families. This study disputed the positive outcomes of microfinance in achieving various MDGs as argued by Littlefield et al. (2003), Dunford (2006) and Bliss (2005). The above criticisms can be better understood and explained when seen in relation to the specific MFIs' overall objectives and their modus operandi within the context of socioeconomic environment in which they operate.

In addition to the criticisms cited above, the financial viability of MFOs has been the focus of an on-going debate. With small loan sizes and high supervision costs, MFOs find it difficult to be financially viable. Chowdhury (2009), Jain and Moore (2003) observed that the MFOs that charge low interest on their loans are comparable to implicit subsidies. Isa and Alam (2011) reported that during the early years of GB's growth (i.e. during 1983 to 1993):

> *It received an amount of USD 175 million of low cost fund, bulk of which was the out-right grant. Coupled with tax exemption, it helped in the creation of a sizeable pool of equity for the organisation* (195).

Despite the assertion by PGB1, that *GB could have attained financial independence by solely mobilising borrowers and non-borrowers' deposits,* the cost of mobilising funds through deposits would have been expensive and likely to have affected its financial viability in the short term.

In a populous country with surplus labour, supported by generous donor funding and a supportive regulatory environment, GB's journey to viability was often fraught with uncertainty. A World Bank funded study by Khandker (1996) also reported that the profits of GB prior to 1993 were due to economic subsidy inherent in its funding mix. It is, therefore, not surprising that globally financially viable microfinance organisations with non-subsidised fund are estimated to be less than five per cent (Morduch, 2000). In fact, like GB, most of the financially viable MFOs received grants and subsidised funds during their initial years of growth and consolidation. On this premise, Morduch (2005) carried the notion of a so-called *smart subsidy* that is *transparent, rule-bound, and time-limited* (2), maximises social benefits, and contributes towards financially viable operations. CGAP (2004) also tread the same policy-path proposing that donor subsidies *should be a temporary start-up support* (1) and not a permanent source for an MFO's ongoing operation. These recommendations bring to the fore debates on policy relating to subsidies and grants in social sector programmes including microfinance. It is taken that if subsidies can propel MFOs into financially viable organisations under proper design with specific social outcomes, then the opportunity cost of subsidising poverty-focussed-programmes can be maximised.

8.4 Conclusion

As an organisation, GB has demonstrated that under a properly designed institutional framework, banking with the poor and unbanked is doable. The present findings demonstrate the socioeconomic impact of GB on the empowerment of women, financial inclusion, and poverty alleviation.

Being a specialised bank, established through a Government Ordinance in 1983 (GOB, 1990), GB is neither a non-governmental organisation (NGO) nor a bank in the conventional parlance. The description of GB by Fuglesang and Chandler (1993) as a *socioeconomic formation* (39) is apt. It is an organisation where its member-clients (GB's clients are referred to as members of GB) participate for their socioeconomic benefit and are mutually accountable to each other. This aspect of accountability is integrated into its overall institutional strategy and modus operandi through a well-orchestrated monitoring and supervision regime in which its member-clients, select each other from the very first day, and mutually build solidarity by being members in groups and centers.

Additionally, 75% ownership of the organisation by member-clients can be construed as a philosophical, political and a strategic issue hedging the organisation from mission drift. This ownership opportunity of the member-clients also facilitates self-decision and ensures robustness of the organisation as part of the mutual obligation of enlightened self-interest. A social development agenda (SDA), embedded into its operational design not only *represents a personal and collective manifesto of its clients* (GB, 1988a: 134) but is also used as poverty alleviation criteria in the lives of member-clients.

GB is the first of its kind to embed a clear moral undertone in its philosophical grounding, positing credit to be a fundamental human right. The bank places women at the forefront of a financial inclusion and poverty alleviation strategy, and promotes self-employment as a means to economic integration of the unbanked, and poor.

As an institution, GB has weathered socioeconomic changes in Bangladesh and inspired a movement to reach out to millions of unbanked people across the world. Its institutional strategy in adapting to internal and external contingencies (Donaldson, 2001) to achieve efficiency is amply demonstrated in the automation of its entire field level monitoring and evaluation system. PGB2 and PGB3 cited the introduction of Grameen Generalized System (GGS) or Grameen II as a strategic response to challenges posed by sociopolitical circumstances requiring changes in GB's savings mobilisation strategy. The inclusive nature of its overall design that fosters close cooperation and mutual obligation between the bank and its member-clients through a transformative process of socioeconomic changes enshrined in SDA further reinforces GBs institutional strength as a socioeconomic formation.

Being a socially conscious enterprise, the process of change in an entrenched patriarchal and patrilineal society, GB was aware of social ethos and values in the design of its modus operandi in which women members participated without disturbing the cultural and religious beliefs. In fact, the implementation of the decisions in the SDA in which many cultural taboos were gradually eliminated, demonstrates the efficacy of the socioeconomic process that GB engineered through its institutional strategy. In bringing this change, GB appears to be mindful of the diverse elements that shape a society's values, ethos, the basis of order and compliance, and rationale for establishing legitimacy claims that Scott (2009) summed up in Table 2.1, as *Three Pillars of Institution* (465). GB's inherent nature of adaptability to the overall institutional environment without compromising its moral and philosophical stand, its robust institutional strategy, and well-designed modus operandi seem to have contributed to the establishment of a world-class organisation. Its replications in 41 countries under different socioeconomic and political climes demonstrate the versatility of its concept and design.

As a social business enterprise, GB operates with the dual objectives to achieve socioeconomic outcomes for its clients and viability as an organisation. Because loans of GB being non-collateralised, the organisation incorporated group-based peer support as social-collateral and embedded different savings products to build up resource for its clients and resilience to work through contingent circumstances. The ability of GB to mobilise savings from its member-clients and as well from non-members allows it to organise funds for its on-lending operation.

One of the unique features of GB is the linking of savings with loan cycles. This strategy supports the accumulation of savings that now exceed per-head average loan outstanding of its member-clients. GB’s savings as a percentage of outstanding loans was 120% at the end of January 2016, demonstrating the effectiveness of its strategy of integration of clients into asset building, and as well a self-funding mechanism towards financial independence of the bank. It is interesting to note that as part of the default management strategy of GB, while members’ savings and integrated loan insurance programmes played a critical role to insure debt-repayments of the struggling borrowers, the peer monitoring, and peer support seem to be crucial in building the foundation for a socioeconomic partnership among its clients.

The viability of GB; both institutional and financial, is at the core of its operating principles embodying business ethics to solve social problems. The GB model follows financial systems approach or institutionist approach of microfinancing (Robinson, 2001; Morduch, 2000) in which institutional and financial viability are inherent in the design of the MFO. The institutional robustness of GB stood the test of time (Khalily and Meyer, 1993; Nasrin and Sarker, 2014; Gregory et al., 1989), demonstrating its ability to cope with natural disasters and adapting to changes to accommodate contingent situations, and maintaining a consistently high recovery rate despite expansion of its activities.

However, the institutional vulnerability of GB is inherent in its very nature. The social transformation that comes with improved economic conditions for millions of GB borrowers has political implications. After more than three decades at the helm of GB, the sudden forced departure of its founder Yunus in 2011(GB, 2011) is seen by many as a ploy for political interference (Stace, 2011; PTI, 2011; Al-Mahmood, 2013). To maintain GB’s ability to service its member-clients as it did since its establishment more than 30 years ago, the current and future leadership need to steer it clear from any political meddling and bureaucratic tangles.

GB, as it stands now, does not take any donor fund or any low-cost finance (at1- 2%) to sustain its operation. It is financially viable as an organisation. GB received substantial grants and low-cost funds immediately following its establishment as a separate financial institution, in 1983. Without initial support from donors and international organisations, it would have been challenging for GB to create a solid foundation for its nationwide expansion and as well its financial viability, at least during the formative years of its development.

Given the circumstances through which GB was established and matured over the years, its replication, be it with similar socioeconomic conditions like Bangladesh or overseas, would necessitate low-cost funds and grants to commence and expand its operations. The initial equity injection and the legal support that GB received from the Government of Bangladesh (GOB, 1990) were exemplary. It is not unlikely that the design of an MFO, following the GB model, will have difficulty in attaining the financial viability without local regulatory support and access to grants and, or low-cost funds during the initial years of establishment, growth, and development.

Since, GB is regarded as the pioneer of microfinance movement, any criticism or fall-out about microfinancing anywhere in the world, is directly or indirectly attributed to GB. Many MFOs operate under non-congenial legal environment creating barriers for these organisations to fully optimise their operations both for the benefits of borrowers and for the organisations themselves. These aspects of global microfinancing are important to consider when discussing GB microfinance social business model and its effectiveness.

The next chapter is a case study of Grameen America (GA), a direct replication of GB in the USA. Currently, Grameen Trust (GT), a peer company of GB is overseeing the implementation of GA under BOM (i.e. Build, Operate, and Manage), model. The case study of GA is important to examine the efficacy of the GB model in a developed country's context. The findings from this case study of GA are expected to have important policy and operational implications for designing microfinance social business in Australia.

Chapter 9 Study 3: A Case Study of Grameen America

Overview

Grameen America (GA); a *build, operate and manage (BOM) programme of Grameen Trust* (Rahman, 2014: 15) is an example of GB replication in a developed country. This case study is an investigation of the adaptation process of GA in the USA from social, economic and legal perspectives. It is proposed that an in-depth understanding of GA is necessary to determine whether replicating the GB model in Australia is appropriate or possible. Both the US and Australia are members of the Organisation for Economic Co-operation and Development (OECD) and are overwhelmingly populated by immigrants from different countries. With the similar economic mode of governance, following capitalistic principles, social safety net programme (SNP) comprises a relatively larger portion of their annual budgets to address the issues of poverty and inequality in their respective countries. The investigation reveals a significant number of low-income and financially excluded people, a non-inclusive financial system, and a regulatory regime restricting establishment of a microfinance bank following the GB model. Despite different sociocultural and economic environments, GA is found to be resilient in applying the best value principles of GB microfinancing, growing to become the largest women-centric microfinance social business enterprise in the USA, in less than a decade. But the financial self-reliance of GA in its existing legal structure is found to be challenging.

9.1 Introduction

GA is a direct replication of GB in the USA. The features of the US economy and its governance, population demography, and its spatial character, the nature, and extent of poverty and its management, social psyche, and overall strategy in redressing finanical exclusion have noticeable variance with that of Bangladesh. The USA can reasonably be classified as a country of the *paradox of poverty amidst plenty* (Danziger and Danziger, 2005: 1).

Despite being the world’s largest economy with a GDP of USD 18 trillion at current prices (IMF, 2016), Fitz (2015) reported that 84% of the wealth in the USA is owned by the top 20% of households, while a meagre 0.3% held by the bottom 40%. Stierli et al. (2015) reported household wealth of *USD 4.6 trillion in June 2015 in the USA* (4), stating that the *top 10%*

retained its share at 75.6% of all wealth (149) during that time. Alichi et al.(2016) from the International Monetary Fund (IMF) warned that *both income inequality and polarization in the U.S. have seen a significant increase since 1970* (15) with the resultant *prevalence of extreme poverty in the USA* (Shaefer and Edin, 2014: 31; 2013) for many of its low-income families.

Against this backdrop of inequality (Fitz, 2015; Stierli et al., 2015; Shorrocks et al., 2015), based on income criteria, *about 46.66 million or 14.8% people lived in poverty in 2014* (DeNavas-Walt and Proctor, 2015: 12). It is essentially, *more than one in seven Americans lived in poverty in 2014* (West and Odum, 2016: 1). The US Census Bureau report (DeNavas-Walt and Proctor, 2015) also revealed that poverty rates among women, in general, were higher (i.e.,16.1 per cent) than men. One reason can be attributed to discrimination in wages where women constitute two-third of the low-wage workers, even though they comprise less than half of the nation's workforce (NWLC, 2014). Hegewisch and Hartman (2014) reported that:

> *The gender wage gap in the USA for a fulltime worker is 21.7%, and if the pace of change in the annual earnings ratio continues at the same rate as it has been since 1960, it will take another 45 years, until 2058, for men and women to reach parity* (1).

The U.S. Department of Health and Human Services (USDHHS) determines the poverty thresholds as a basis for deciding the eligibility of residents for different federal programmes for low-income communities. These thresholds

> *Are crude estimates of a basket of goods and services minimally adequate for an individual or families of various composition according to the living standards of the early 1960s, updated annually for changes in consumer prices* (Gabe, 2015: 1).

Anyone falling below the thresholds for different family sizes and geographic locations is categorised as poor. The 2014 poverty thresholds, determined by the USDHHS, for all the US States are summarised in Table 9.1.

Table 9.1 Poverty Thresholds in the United States in 2014

Persons in Family /Household	**Annual Income in USD**		
	48 Contiguous States, and District of Columbia	**Alaska**	**Hawaii**
One-member family	11,670	14,580	13,420
For each additional member in a family	4,060	5,080	4,670
Three-member family	19,790	24,740	22,760
Eight-member family	40,090	50,140	46,110

Source: Sebelius (2014).

Being a multicultural immigrant society, poverty rates in the USA vary among different ethnic and cultural segments, as shown in Table 9.2.

Table 9.2 Poverty across Ethnic Configuration in the USA in 2014

Description	**Total (Million)**	**Population (%)**	**Poverty (Million)**	**Poverty (%)**
Total US population	315.8	100	46.7	14.8
White population	199.5	63.2	20.5	10.3
Hispanic population	55.5	17.6	13.1	23.6
Black population	41.1	13	10.8	26.3
Asian population	17.8	5.6	2.1	11.8
Pacific Islander	1.9	0.6	0.2	10.5

Source: DeNavas-Walt and Proctor (2015: 44,45,46,47,48).

Due to the high incidence of poverty among the Hispanic and Black people, GA has primarily focussed on these two population segments. Table 9.2 shows that these two ethnic groups constitute about 31 % of the US population, but represent 49.9% of people below the poverty line. Grusky et al. (2015) reported that due to decentralised policies to address socioeconomic issues, there are wide variations in inequality and poverty profiles across the States. Mather and Jarosz (2014) posited that income inequality in the USA largely depends on where one lives. It is found to be in areas *with a large, diverse population like California and parts of the Northeast and South, and lower in states in the Midwest and Mountain West* (Mather and

Jarosz, 2014: 4). The map in Figure 9.1, dividing the country into quantiles, shows the highest poverty rates with the darkest blue colours and the lowest with the lightest blue colours. The highest poverty rates were recorded in Mississippi (24.3%) while the lowest was found in New Hampshire (8.8%).

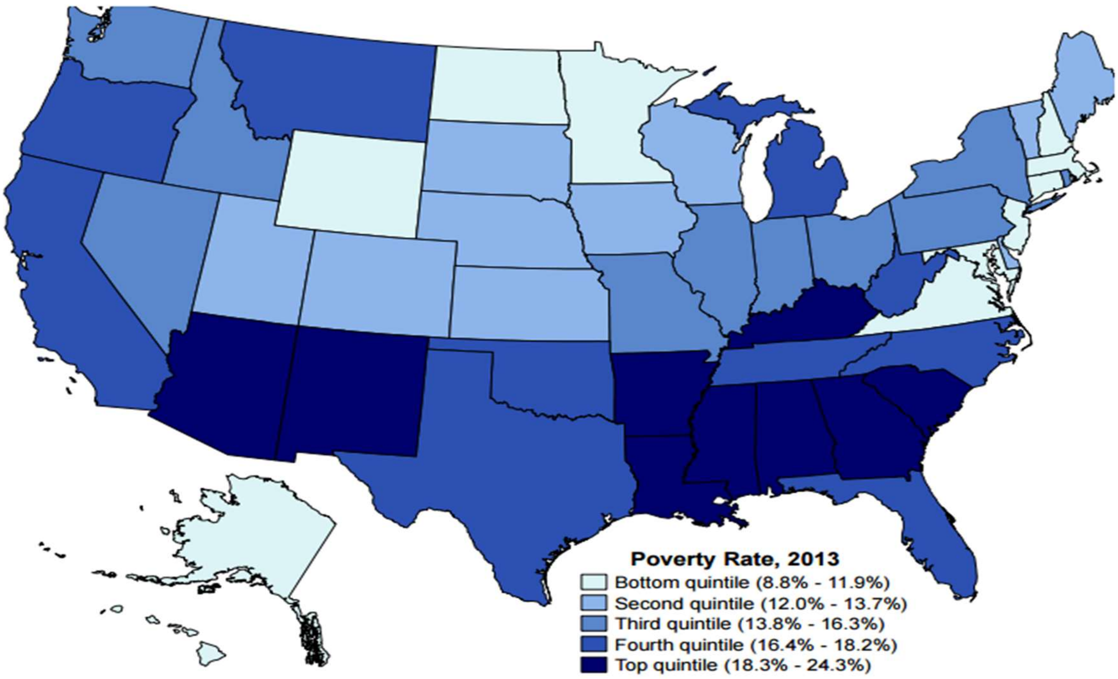


Figure 9.1 Poverty Rates across the USA

Source: Mattingly et al. (2015: 17) based on information from the American Community Survey 2013, and the US Census Bureau's official poverty measure.

The deep-rooted poverty among the Hispanic and Black population in the USA, especially in the States like Mississippi, Louisiana, Arkansas, District of Columbia, New York, Florida, Texas, California, Florida, Arizona, New Mexico, Alabama, Kentucky, Tennessee, Georgia, West Virginia, Arizona, South Carolina, North Carolina, Oklahoma, Ohio, and Missouri are increasingly discernible.

Poverty and inequality in the USA are exacerbated owing to a large number of financially excluded people. Twenty-eight per cent of the US population is financially excluded (Glinska, 2014; Bartmann, 2015) due to their inability to comply with the prudential banking regulation to avail loans where asset and other forms of tangible collaterals are used as eligibility criteria. Despite specific measures to ameliorate this situation, as discussed in Section 9.3.2, eight per cent of the US population remain entirely unbanked (Narain et al., 2015).

The depth of poverty and inequality in the USA can further be comprehended from the size of an annual SNP budget of about USD 1 trillion under the Federal Welfare and Social Services Programs (Pianin, 2015; Rector, 2012; Winfree, 2015). Outside the SNP, there are community banks and community development financial institutions (CDFI) working among the low-income, underbanked, and unbanked individuals to mitigate their financial exclusion and ease the consequence of economic hardship.

This case study of GA unravels the adapative process of GB in a developed country's context. Therefore, the Research Objective (RO) 3 (i.e. to examine the efficacy of a modified, and or adapted microfinance social business model of Grameen Bank for Australia), is investigated through the Research Question (RQ) 3 (i.e. is it possible to establish a microfinance organisation as a social business which focusses on positive social outcomes and is also financially viable?) and Research Question (RQ) 4 (i.e. what would be the key attributes of such an organisation?). Based on the poverty mapping in Chapter 4 and review of microfinance and its nature in Australia in Chapter 5, Study 1 provided an appreciation of the socioeconomic and legal characteristics that have shaped the way microfinance operates in Australia and identified the opportunities, potential size, dispersion, and constraints pertaining to microfinance social business. This study (i.e. Study 2 critically investigates GA's experiences, features, and rationales for specific modus operandi; its success and the process of institutionalisation in a deep-seated conventional banking environment in a developed country, using social-collateral lending strategy; primarily targeting women as the principal beneficiaries of its operation, by itself, is an example for Australia to reflect upon.

Therefore, while Studies 1 and 2 have partially answered RQ3, the findings of Study 3 (i.e. a case study of Grameen America) further contribute to RQ3 by demonstrating an example of the adaptation of the GB model in the USA. Similary, answers to RQ4 are dependent on the findings in the three studies. The interrelationship between these three studies define not only the structural symmetry in the conduct of this thesis but also rationalises the findings emerging out of it. The following section describes the methodology employed for Study 3.

9.2 Method

Study 3 is exploratory and explanatory. In this case study 'what' questions are exploratory in nature. Here the emphasis is placed on, 'what can be learnt from GA', and 'what are its key attributes'? '*How' and 'why' questions are more explanatory* (Yin, 2009: 9). How' questions answer, 'how GA operates, and 'where' it operates'? Why' questions essentially address GB's relevancy in the USA (i.e. the context, 'and effectiveness). These questions suggest the adoption of appropriate methods like an experiment, history, and case. A constructivist paradigm (Baxter and Jack, 2008), using the epistemological framework (Gringeri et al., 2013; Maynard, 2006) is adopted for Study 3. This case study demonstrates how the socioeconomic and legal challenges are being addressed by GA in a developed nation.

9.2.1 Participants

Nine informants, as mentioned in Table 9.3, representing various levels of GA's organisational hierarchy including some six randomly selected clients, were interviewed from GA.

Table 9.3 Informants for primary data collection from Grameen America

Informants (*n*=9)	**Credentials of the Informants**
PGA1	Former CEO, Operations and the Chief Advisor to the President of GA, USA. Has more than 30 years' experience in microfinancing in Bangladesh at both policy and operational levels. Was the head of the Training Institute of GB before to joining GA in the USA.
PGA2	National Director, Training in GA, USA. Has more than 20 years' working experience in GB in Bangladesh.
PGA3	The Branch Manager of one of the branches in New York in the USA. Has more than 16 years' experience in GB, Bangladesh and Grameen replications in Myanmar, and Mexico.
PGA4	A female client (age 32 years) of GA from Jackson Heights Branch, New York, USA.
PGA5	A female client (age 35 years) of GA from Jackson Heights Branch, New York, USA.
PGA6	A female client (age 25 years) of GA from Jackson Heights Branch, New York, USA.
PGA7	A female client (age 35 years) of GA from Jackson Heights Branch, New York, USA.
PGA8	A female client (age 35 years) of GA from Jackson Heights Branch, New York, USA.
PGA9	A female client (age 35) of GA from Jackson Heights Branch, New York, USA.

Note: PGA is acronym for Participants from Grameen America.

9.2.2 Data Collection and Analytic Procedures

Data were collected during the period from 18 October 2014 to 26 October 2014. Face to face semi-structured interviews were conducted to collect the primary data.

Interviews of the three key officials were intermittent and organised in their offices over a number of sessions each lasting for about one to two hours. Interviews of the clients were organised by the GA officials during the Center meetings. Being semi-structured interviews, the questions were adjusted based on the answers of the informants. Each session was interactive and provided insider views of the participants on various issues depending on the informant's role within the organisation. The interview protocols (see Appendices 6 and 7) for each category of informants directed the nature of questions seeking their views on different aspects of GA.

None of the informants from GA wanted to be audio-recorded. Notes were taken, and the transcripts were sent to the respective informants for their feedback before using the data in this research.

Analysis of data focussed on identifying the strategy and efficacy of GB replication in the USA. The data coding and analysis, and triangulation process and the reliability and validity of the collected primary data have been discussed in Sections 6.5, 6.7.1 and 6.7.2 of this thesis. Published reports and unpublsihed internal documents, and extant literature were sought to corroborate the findings generated from the interviews.

9.3 Findings and Discussion

GB microfinance model is found to be effective in Bangladesh and similar socioeconomic conditions. But in a developed country's context its relevance, adaptability, and efficacy are yet to be fully investigated. Sections 9.3.1 to 9.3.3 critically discuss the findings of the US financial market and its regulation, financial exclusion and policy responses, including the relevancy of the GB model in the USA. The existing microfinance market and its potential are also investigated in Section 9.3.4 as part of the discourse. The findings in each of the above areas are critically discussed against the contexts of the socioeconomic and institutional environments that either nourish or impede microfinance development in the USA. Subsequent sections from 9.3.5 discuss the findings in relation to institutional strategy of GA, its process of adaptation, modus operandi, and financial viability.

9.3.1 Non-inclusive Financial Market and Regulation in the USA

The non-inclusive nature of the US financial market is the outcome of the existing market structure. Financial market *influences the allocation of resources* (Gonzalez-Vega, 1994: 6) in conformity with priorities set by the Government. Being *the nerve Center of a modern capitalist economy* (Frieden, 2015: 10,11), its regulation is essential to optimise resource utilisation to maintain discipline, stability, efficiency and propel economic growth (Giorgio et al., 2000; Stiglitz, 1993).

The US financial market consists of four different categories of organisations. These are, a) depository institutions like banks, both local and foreign, and credit unions, b) insurance companies and pension funds, c) government and government sponsored agencies, and d) the US non-bank intermediaries. Based on data released by the US Federal Reserve System (2016), the estimated size of the US financial market is about USD 91 trillion, as at the end of 4th Quarter of 2015, being about 6 times the size of the US GDP of *USD 18 trillion* during that period (FRSS, 2016: 7). The sector-wise percentages of the market are shown in Table 9.4.

Table 9.4 Structure of the US Financial Market as at the End of 2015

Sector	Total Assets		Remarks
	Trillion USD	%	
Depository institutions and affiliates	17	19%	Banks, including foreign banks in USA, credit unions (i.e. all the depository institutions).
Insurance companies and pension funds	35	38%	Life and property insurances, private and public pension funds, retirement funds of local, state and federal Government.
Government and Government sponsored agencies	11	12%	Government-sponsored enterprises, Federal Reserve, and agency and GSE-backed mortgage pools.
US non-bank intermediaries	28	31%	Mutual funds, holding companies, funding corporations, security brokers and dealers, finance companies, real estate investment trusts, closed-end and exchange traded funds, and asset-backed securities issuers.
Total	91	100%	

Source: Federal Reserve Statistical Release (2016).

The depository institutions and affiliates constituting only 19% of the US financial market, lend an insignificant amount to low-income communities through the certified CDFIs. The unbanked and underbanked are reliant on not-for-profit CDFIs like loan funds and welfare organisations. Cortes (2014) reported that due to the double bottom lines of financial viability and social outcomes, the real impact of CDFI loans on the low-income communities is difficult to measure. Swack et al. (2012) observed that the CDFIs have the tendency to adjust their lending practices and strategies to achieve faster financial viability, thereby compromising the primary objective of lending to the low-income and completely unbanked communities. The shifting priorities of investors towards more profitable deployment of resources can be understood from the findings of Pollin and Heintz (2013) who reported that post-2008, despite the decline of domestic lending within the USA to about 8%, profits of commercial banks did not have a proportionate hit. Pollin and Heintz (2013) pointed out that it was primarily due to investments in *securitization, trading and derivatives* (2013: 82) that are found to be more profitable compared to conventional lending. The complete reliance on profit-seeking investments negatively impacted lending to small and medium industries, especially the low-income and underbanked communities. It can be reasonably assumed that under existing financial market dynamics, CRA is essentially a Band-Aid strategy to protect the current system from being compromised in terms of stability, security, and profitability.

In the USA, the financial market is regulated, at both Federal and State levels, by a number of agencies *to protect borrowers and investors that participate in financial market and mitigate financial instability* (Murphy, 2015: Summary,1). The underlying principle driving the overall regulatory framework is prudence. This principle, based on conventional collateral approach, is viewed by PGA1 and PGA2 as unworkable for low-income individuals despite relative laxity of criteria for loans to underserved and unserved communities through the non-depository CDFIs. The informants attributed this to the organisational design and ethics in packaging and delivering loan products.

Another feature of the US financial market is that the banking industry is dominated by sixteen large banks, having a combined asset of USD 8 trillion (i.e. 61% of the total industry assets). This group includes four large banks: Bank of America Corporation, Citigroup Inc., JP Morgan Chase & Company, and Wells Fargo & Company whose share is 45% of the total industry assets. Smaller and the community banks, comprise about 95% of all banks in the USA, but hold only 15% of the industry assets (FDIC, 2012). This picture, presented in Table 9.5, shows this distribution of assets across bank types.

Table 9.5 Size of Banks in the USA based on Assets

Bank Categories in USD	Number of Banks	%	Asset (Billion USD)	%
Banks over 100 Billion	16	<0.2%	8,161	61%
Banks between 10 to 100 Billion	76	>1%	2,430	18%
Banks between 1 to 10 Billion	206	3%	764	6%
Banks under 1 Billion	92	>1%	21	<0.2%
Community Banks (under 1 Billion)	6,524	94%	1,944	>14%
Total Banks	**6,914**	**100%**	**13,320**	**100%**

Source: Federal Deposit Insurance Corporation (2012: 4).

Since, only the certified community banks are reported to be socially driven, the actual amount of bank finance available to the financially excluded and low-income communities is relatively small. At the end of 2015, the number of certified CDFIs was 958 (OCC, 2016) which made up about 15% of the total community banks. According to the St Louis Fed President James Bullard, reported by Schneider (2016), that monopoly by large US banks might *discourage innovation, leave regulations out of step with changes in the financial industry* (Reuters, 25 Feb 2016).

Owing to non-inclusive nature of the financial market, a relatively large proportion of people are prevented from accessing loans and other financial services. In the light of the above findings, a brief discussion on the financial regulations and the relevant agencies mentioned in Table 9.6, further clarify the market dynamics within which the CDFIs and other mission-driven social outcome-focussed financial organisations are currently operating. The key regulatory agencies listed in Table 9.6 are stated to fostering economic growth, stabilising prices, ensuring transparency, protecting consumer rights and safeguarding customer deposits.

Table 9.6 Financial Regulations and Agencies in the USA

Agencies and Regulations	Institutions/Activities Regulated	Remarks
Department of Treasury	Manages Government revenues. Recommends and influences fiscal policy. Regulates the U.S. imports and exports. Collects all the U.S. revenues, including taxes. Designs and mints all the US currency.	Founded in 1789, the Department of Treasury operates through two agencies: The Office of the Comptroller of Currency (OCC), and the Office of Thrift Supervision (OTS) regulating banks, savings and loan associations.
Office of the Comptroller of Currency (OCC)	Regulates financial institutions operating within the USA.	Established in 1863, it is an independent bureau within the US Treasury. Responsible for the stability of financial system.
Federal Reserve or the Fed	The Fed is the central bank of the United States. It regulates and is mandated to promote stable prices and economic growth. It regulates the U.S. monetary system (i.e. how much money is printed, and how it is distributed). Monitors the operations of holding companies, including traditional banks and banking groups.	Fed was established in 1913, operates through a seven-member Board of Governors, Federal Open Markets Committee, Reserve Banks: twelve regional banks with twenty-five total branches.
Federal Deposit Insurance Corporation (FDIC)	Federally insured depository institutions, including state banks, savings and loans associations, also known as "thrifts" that are not members of the Federal Reserve System. Regulates savings and loan holding companies-firms that buy up rights to all the loans held by various thrifts.	Created in 1933. FDIC guarantees individual savings of members in the event of failures, or liquidation of banks.
Securities and Exchange Commission (SEC)	Oversees U.S. securities markets. Enforces securities law, and monitoring exchanges for stocks, options, and other securities.	The SEC was created as an independent agency in 1934. Has the authority to determine financial accounting standards for all publicly traded firms. Its primary concern is maintaining fair and orderly markets and protecting investors from fraud.

Agencies and Regulations	Institutions/Activities Regulated	Remarks
National Credit Union Administration (NCUA)	Regulates credit unions. Also, serves as a liquidity lender through the Central Liquidity Facility to the credit unions experiencing liquidity crisis.	Originally part of the Farm Credit Administration, became an independent agency in 1970. It also operates a deposit insurance fund for credit unions through the National Credit Union Share Insurance Fund (NCUSIF).
Commodity Futures Trading Commission (CFTC)	CFTC regulates market in futures contracts through which traders agree to buy or sell a good at a specific time in the future for a specific price.	Created in 1974, CFTCs oversight includes all futures contracts from commodities to currencies, government securities like treasury bonds, valuation of different stock indices, Swap dealers, major swap participants, and swap execution facilities.
Federal Financial Institution Examinations Council (FFIEC)	Created by legislation 32 in 1979 as a formal interagency body to coordinate federal regulation of lending institutions.	The FFIEC is constituted with representatives from Federal Reserve, OCC, FDIC, NCUA, and BCFP.
President's Working Group on Financial Markets (PWG)	Provides interagency coordination and information sharing and studies entities and products that raise intermarket regulatory issues, such as hedge funds and OTC derivatives.	Created in 1988, the PWG consists of the Secretary of the Treasury and the Chairmen of the Federal Reserve, the SEC, and the CFTC.
Federal Housing Finance Agency (FHFA)	Regulates secondary mortgage markets in housing: the government sponsored enterprises of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks.	Created in 2008, FHFA is a member of the Financial Stability Oversight Council (FSOC, 2015) that identifies financial market risks for promoting market discipline to mitigate market instability in the USA. The overall objective is to ensure *the stability of the nation's housing finance system* (Lockhart, 2008: 1)
Financial Stability Oversight Council (FSOC)	Responsible for identifying risks to financial stability and responding to emerging systemic risks. Minimising moral hazard arising from expectations that firms or their counterparties will be rescued from failure.	Created in 2010, FSOC is chaired by the Secretary of the Treasury. Other voting members consist of the heads of the Federal Reserve, FDIC, OCC, NCUA, SEC, CFTC, FHFA, CFPB, and a member with insurance expertise appointed by the President.

Agencies and Regulations	Institutions/Activities Regulated	Remarks
Bureau of Consumer Finance Protection (BCFP)	Responsible for consumer protection in the financial sector within the USA.	Established in 2011, the BCEP is an independent entity within the Federal Reserve. Its jurisdiction includes banks, credit unions, securities firms, payday lenders, mortgage-servicing operations, foreclosure relief services, debt collectors including CDFIs and microfinance organisations operating in the United States.

Source: Murphy (2015)**,** Teslik (2008), Lockhart (2008), Labonte (2010).

Note: The agencies & regulations are sequenced in order of establishment/commencement.

It is evident from existing US financial regulations that there is an absence of effective laws that prohibit oligopolistic dominance by powerful profit maximising institutions in the market. This situation promotes the profit-seeking investments (Pollin and Heintz, 2013) and provides no incentive for investments in the relatively less profitable mission-driven enterprises. The interest of low-income and financially excluded individuals in the USA appears to remain on the financial fringe, possibly to ensure market stability and security of customers' deposits. It is reasonable to assume that the existing financial regulations in the USA are intended to immune the formal financial market from the non-conventional, non-collateralised lending paradigm designed for income-poor and economically marginalised communities. Against the background discussed in the preceding two sections, financial exclusion and the policy responses are briefly analysed in the following section.

9.3.2 Financial Exclusion in the USA and Policy Responses

Twenty-eight per cent of the US population (i.e. about 88 million people) is financially excluded (Glinska, 2014; Bartmann, 2015), of which *about 20%, or about 63 million of US households are underbanked and 8%, or 25 million are unbanked* (Narain et al., 2015: 33). This underrepresentation is prevalent despite the fact that there are 6914 financial institutions (FDIC, 2012) and non-depository CDFIs (Erler, 2012; FIELD, 2013) in the USA. Pollinger and Cordero-Guzman (2007). reported that:

> *In the late 1980s, microfinance institutions (MFIs) started to gain traction in the USA to serve capital markets in low-income and predominately ethnic minority communities* (24).

The legislation by the US Congress to authorise the US Small Business Administration (SBA) in 1991 in making low-cost investments to microfinance providers for on-lending to micro-businesses (Carr and Tong, 2002) was a conscious effort to support this sector. The Association for Enterprise Opportunity (AEO), the first member-based microfinance association, was established in 1991(Lieberman et al., 2012).

According to Servon (1999):

> *Microenterprise strategy moved to the forefront at the US policy agenda in early 1997 when the first international microcredit summit was held in Washington, D.C.* (3).

Servon (1999) identified three factors in this policy move. These are:

1) Re-orienting the social welfare policies focussing on economic development and job creation;
2) Promoting self-employment among the poor; and
3) The increase in the number of Asian and Latin American immigrants.

The enactment of the Community Reinvestment Act (CRA) in 1977 by the US Federal Government requiring banks to provide retail banking services to the low and moderate-income (LMI) neighbourhoods (Kempson, 2006; Getter, 2015) was a major step to involve banks in supporting unbanked and underserved communities *in a manner consistent with the safe and sound operation of such institutions* (Berry, 2013: 1). As a further precaution to avoid investment in risky activities, the regulatory authority (i.e. Federal Reserve System (FRS)) encouraged banks *in community development investment (CDI) that meets the public welfare investments(PWI) requirements, to get CRA credit* (Getter, 2015: 6,7). Many banks have channelled CRA money to establish National Community Investment Fund (NCIF) for lending through the certified Community Development Financial Institutions (CDFIs) to reach out to underserved communities (Meyers and Jenkins, 2012). CDFIs are certified by the CDFI Fund as a condition for eligibility for accessing low-cost fund from the Government and private sources (OCC, 2016). The CDFI Fund established by the US Government is mandated to provide affordable financial products and services in low-income and underserved communities through CDFIs (Donovan, 2015). In the USA, CDFIs are:

> *Specialized financial institutions that provide financial products and services to population and businesses located in underserved markets. These institutions have community development missions and a reputation for lending responsibly in low- income communities. CDFIs include banks and bank holding companies, as well as credit unions, loan funds, and venture capital funds* (FDIC, 2014: 1).

CDFIs are both depository and non-depository financial institutions depending on the nature of their incorporation. CDFI *loan funds are typically structured as non-profit organisations* (Lieberman et al., 2012: 48) that are outside federal banking regulations. These organisations can be flexible in deciding security arrangements while lending (FDIC, 2014), and can also receive funds from public and private sources as grants and donations.

For a bank to qualify as a community bank or a CDFI bank, the value of its total assets must be *less than USD 1 billion* (Keeton et al., 2003: 17). Based on this criterion, about 95% of banks in the USA are within this eligibility range. However, community banks retain their *deposits within rural and micropolitan counties* (FDIC, 2012: i). The mission-driven community focus is the primary inclusion criteria in selecting the financial institutions for low-cost loans from both CDFI Fund and NCIF. CDFI Banks or Community Banks, which are depository in nature, are subject to Federal banking regulations in their lending and reporting requirements. Both these funds are primarily impact investors in certified CDFIs to *implement a triple-bottom-line strategy to achieve social, environmental and financial outcomes* (NCIF, 2015: 21).

Despite the risk-averse approach mentioned in the immediate preceding section, the CRA was critiqued for providing loans to high-risk borrowers citing the negative impact of compromising the financial stability of the banking system. (Berry, 2013; Avery et al., 2003; Rajan, 2010; Kroszner, 2008). This phenomenon exemplifies the rigidity and non-inclusiveness of the US financial system that further stiffened after the GFC (McKibbin and Stoeckel, 2009) in 2008.

One of the fallouts of the GFC (Aikins, 2009) was that lending criteria became more controlled, domestic lending in the USA was squeezed, investments in derivative and security markets increased, and innovation in matters to financial inclusion was compromised. The target market of the GB microfinance model, low and unbanked people, were the most affected by these measures.

9.3.3 Relevancy of the GB Model in the USA

The policy responses, discussed in the preceding section, seem to have overlooked the unbanked segment of the financially excluded population. PGA1 was unequivocal in stating that:

> *SBA is an excellent funding source for low-interest loans to the small businesses in the USA, and not necessarily the microenterprises and those reliant on food stamps*.

He (PGA1) was also critical of the lending terms by the SBA supported microenterprises, defined as businesses with *five or fewer employees and requiring no more than USD 50,000 as a loan* (Edgcomb and Thetford, 2013: 3). The information shared by PGA1 is in sync with the findings of Miller et al. (2011) that microenterprises having one-to-nine employees are unable to receive any credit from SBA or SBA linked microenterprise providers. Therefore, SBA does not seem to be targeting the microfinance borrowers at the bottom of the economic pyramid.

In response to a question regarding the impact of CRA, PGA1 argued:

> *Despite the apparent rhetoric, banks do not have appropriate loan products for low-income individuals. CRA is more of a political tool to secure banks' investment for low-income individuals in areas unrelated to generating either self-employment or long-term impact on financial inclusion and poverty alleviation.*

However, industry reports from NCIF (2015), Lux and Greene, (2015), and Donovan (2015), referred to the positive impact of the certified CDFIs funded by them. The target group and loan portfolio analysis of CDFI banks reveal that these organisations finance the low-income households with existing businesses, or the *ones lacking a credit history, or have a poor experience with alternative or predatory credit providers or a minimal amount of personal savings* (FDIC, 2014: 1). This market is often overlooked by big banks due to the nature of target groups, and thus, the CDFIs are filling this niche. Owing to a reliance on conventional collateral by certified CDFI banks, very poor; those 25 million unbanked (Narain et al., 2015), or anyone without any business track record, is automatically left out. PGA3 also shared the same view. It may be pertinent to mention that innovations intended in the policy responses, discussed in Section 9.3.2 were restricted even further because of heightened caution and increased risk management while investing in riskier segments in the economy after the GFC.

Since self-employment through engaging in income-earning activities/microenterprises is one of the core value propositions of GB's social business design, it aligns with the three key factors identified by Servon (1999) concerning the US policy shift in its microenterprise strategy. PGA1 stated that:

> *The actual number of financially excluded poor in the USA is more than the officially published figures. It is prudent to estimate the bare minimum microfinance market size based on the number of people reliant on food stamps.*

The recipients of food stamps are the people at the lowest economic rung in the country. Quoting the US Department of Agriculture that administers Supplemental Nutrition Assistance

Program or SNAP, popularly known as food stamps, Bello (2015) reported that about 45.7 million Americans were on food stamps in February 2015.

According to PGA2:

> *Almost 100 per cent of people on food stamps are outside the purview of CDFI Banks /Community Banks and other lending organisations that are depository in nature.*

While many on food stamps are not necessarily enterprising, and, or working-age people, 60% of individuals on food stamps, equate to more than 27 million people. In this count, more than 90% people on food stamps are within 25 million unbanked population in the USA (Narain et al., 2015). Recounting the experience of working in Bangladesh and Mexico, PGA3 was emphatic in stating that under proper regulatory support, GA is the right fit to bring millions of American poor into its operational fold. The growth of GA since 2008 disbursing USD 426 million loans to 69,525 women entrepreneurs in 11 cities, created 72,995 jobs as at the end of May 2016.Commenting on GB's relevance in the US context, Yunus (2007) asserted that:

> *Wherever there is a problem of poverty, GB appears to be a possible solution. If the USA could provide welfare recipients loans and improve their condition to the extent that they would not continue to be on welfare any longer, this would be the greatest economic idea to hit the USA in recent years* (50).

Against the above backdrop, Section 9.3.4 critically analyses the findings on the US microfinancing industry, its nature, growth potential and the efficacy of GA under the existing socioeconomic, and regulatory environments.

9.3.4 Microfinance in the US: At the Crossroads

At the end of 2015, microfinancing in the USA had several years of history to reflect upon. It may be noted that microenterprise loans and small business loans are often combined in estimating the data on loans or number of clients under microfinance category. According to PGA1:

> *The community banks in the USA and other depository institutions, purporting to finance microenterprise loans, are in fact providing loans to small businesses, and not to microfinance clients.*

The rationale of the informant's observation might be comprehended from the following definition by Miller et al. (2011).

> *Microenterprise development refers to helping a segment of small business owners, low, and moderate-income (LMI) individuals, those who lack full access to mainstream financial services, and other disadvantaged people to create or expand a small business* (33).

The definition by Miller et al. (2011) captures the essential character of the US microfinance market which is non-specific in its scope and poses the danger of ignoring the less profitable customers in the market segmentation. The inclusion of microenterprise within the small business category blurs the difference between a microenterprise and small business. A small business in the USA is defined as a firm employing one to less than five hundred people (SBA, 2015), and a *small business loan below USD 1 million* is often considered *less profitable compared to large business loans* (Mills and McCarthy, 2014: 6). While in the USA, *a business with five or fewer employees requiring less than USD 50,000 is normally categorized as a microloan* (Gomez and Edgcomb, 2011b: 3), FIELD in the Aspen Institute, further qualifies the nature of microloans or microfinance by including any business owner on low-income lacking access to commercial credit (Doub and Edgcomb, 2005). The definitional ambiguity explains that despite millions of people living in poverty and on low-incomes, the availability of financial support from SBA, CDFI Fund, and NCIF to the existing service providers like Banks, CDFIs, and non-depository MFOs, under specific policies to combat financial exclusion (see Section 9.3.1), microfinancing in the USA is beset with *low outreach and are unable to operate at financially sustainable level* (Lieberman et al., 2012: 34). The word 'crossroads' used by Lieberman et al. (2012) amply described the inexplicable scenario of the US microfinance market. The state of the US microfinancing is further elaborated in the following section discussing the findings in the overall industry matrix, its dynamics, and underlying motivations.

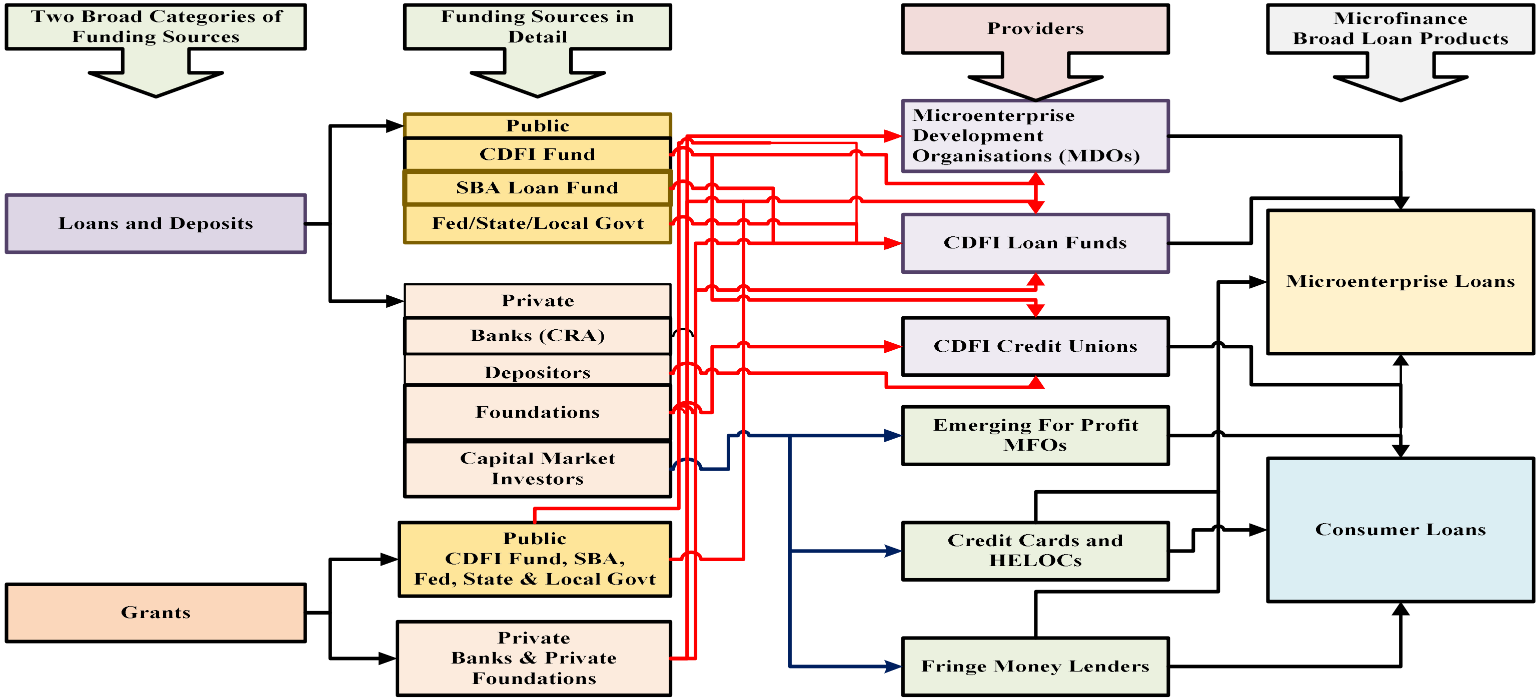
9.3.4.1 Nature of the Market and its Potential

One of the challenges in understanding microfinancing in the US is a dearth of accurate data on the exact number microfinance organisations (MFO) and their beneficiaries. According to PGA1, *a total of about 750 MFOs were operating in the USA in 2014*; FIELD (2013) *identified 816 in 2012 that provide loans, training, technical assistance and other microenterprise services directly to microentrepreneurs* (1). The Office of the Comptroller of Currency (2016) of the US Government reported that *the total number of certified CDFIs at the end of 2015 financial year was 958* (8). By screening off the micro entrepreneurs at the lower-end of the small loans that comfortably sit in the category of the *missing-middle* (GIZ, 2012: 11; Sale, 2010), the actual number of active microfinance borrowers, according to PGA1, is estimated to be about 100,000 at the best count.

The funding source and nature of an organisation primarily underpin the motivations and direction of microfinancing, or for that matter, any programmes, be it for business, or only welfare. Microfinance industry matrix in Figure 9.2 explains the overall scenario of microfinancing in the USA.

The microfinance industry matrix does not include community banks, non-CDFI credit unions, thrifts and depositories, and venture capital funds that finance small businesses but not necessarily microenterprises. The matrix reveals that no fund from grants and public sources capitalise any of the providers who are not registered as charity or public welfare organisations. Therefore, public loans and grants from CDFI Fund, SBA Fund, and Federal/State/Local Governments are channelled to various CDFI Loan Funds, and microenterprise development organisations (MDOs) with DGR status, and whose organisational ethics and overall modus operandi are based on philanthropic principles. A similar regulation is followed for grants to both CDFI Loan Funds and MDOs from private sources.

However, low-income credit unions which are certified CDFIs, receive low-cost loans from CDFI Fund and private foundations. About 593 CDFI Loan Funds *received 80% (or USD 375 million) of CDFI Fund during 2007-2011*(Rosenthal, 2012: 10). These organisations dominate the microfinance market with about 60% of the total clients (Edgcomb and Girardo, 2011). Being depository institutions, CDFI credit unions are allowed to take deposits from their members as well. In this instance, none of the depository institutions, including the CDFI credit unions, receive grants from the sources mentioned in Figure 9.2. Some of the leading MDOs that received low-cost CDFI Fund include ACCION US Network (ACCION), Lift Fund, Access to Capital for Entrepreneurs (ACE) Opportunity Fund, Bentley Microfinance Group (BMG), Business Center for New Americans (BCNA), Justin Peterson, and Grameen America (GA). All these organisations accounted for the majority of microloans during 2010 (Lieberman et al., 2012). Other than for ACCION, ACE, the Lift Fund and GA, none of the remainder microfinance organisations has a nationwide network. The largest client base among the existing MFOs, other than GA, belongs to ACCION US Network, which financed *54,000 loans valuing USD 454 million since its establishment in 1991*(ACCION, 2014: 29).



Notes:
1. HELOC or Home Equity Line of Credit is extended to a homeowner against his/her own home as collateral.
2. The red arrows indicate the funds going to the not for profit organisations including CDFI Credit Unions.
3. The dark blue arrows indicate the funds going to the for profit organisations.

Figure 9.2 The USA Microfinance Industry Matrix

Source: Adopted from Lieberman et al. (2012: 47), Getter (2015), FDIC (2012), GA (2015).

All the MFOs, mentioned above, are not-for-profit companies, operate on individual lending models (other than GA), and require collateral/guarantee/co-signer against their lending. Many of the MDOs and CDFI Loan Funds need prior business experience to provide loans. The interest rates for loans range from 8% to 15% (Lieberman et al., 2012; GA, 2015). In addition to providing microloans, some of the MDOs and Loan Funds offer financial education and training as part of grooming borrowers in loan utilisation and developing their businesses. *Microlenders in the USA also seek to build their clients' credit rating by reporting their borrowers' credit performance to credit bureaus* (Edgcomb and Girardo, 2011: 1) to help them transit to the mainstream banking.

It is important to note that the primary objectives of recipients of low-cost fund and grants from the public and private sources are to provide finance and banking support to the unbanked and underbanked low-income individuals at affordable costs. Therefore, the financial viability of their operations is not a critical consideration.

The providers that are organised on business principles obtain funds from the capital market investors. The three categories of lenders (i.e. for-profit MFOs, credit cards and Home Equity Line of Credit (HELOC), and fringe money lenders) mentioned in the industry matrix are similar in their overall intent and approach. The payday lenders and other forms of financing like credit cards and HELOC are included in this matrix as per the definition of microfinance development in the USA (Miller et al., 2011). These organisations are far apart from the concept of microfinance social business owing to their high costs and conditions underpinning their loans.

Like fringe lenders, emerging for-profit /commercial microfinance organisations which started to gain traction in the USA from early 2000, are profit maximising organisations in their operational ethics, and mostly operate in retail financial service areas targeting low-to-moderate microenterprise markets. They have costs, plus service charges, and are alleged to be non-compliant to the truth of lending (BOG, 1996; Arguello et al., 2013; FIELD, 2011) in their disclosure of real credit costs to their consumers. Gomez and Edgcomb (2011a) cited six leading commercial microfinance organisations that charge costs ranging from 11.7% to 80% Annual Percentage Rates (APR), plus various fees and charges. These are, *On Deck Capital (18% to 30% APR, plus USD500 fee for each loan), Progresso Financiera (36% APR, plus origination fee), Financiera Confianza (80% APR), Our Microlending (18% APR, 5%*

origination fee and 10% cash collateral), Sam's Club (11.7%, plus packaging fee of USD450 for each loan), and Peer to Peer (P2P) Lenders (21%APR, risk premium of 1 to 2%)(Gomez and Edgcomb, 2011a: 9-10). Being profit- driven, commercial MFOs, credit card and HELOCs, and fringe money lenders finance both consumer loans, and working capital for businesses. PGA2 informed *that:*

> *Similar to fringe lenders, the range of products of existing commercial MFOs are expensive, and conditions are less favourable to starters, and those requiring less than USD 5,000.*

Being answerable to investors, the welfare aspect of their clients is also compromised. This is evident from PGA3's claim that:

> *None of the GA clients was eligible to fulfil the criteria of commercial microfinance operators who normally prefer those customers who can provide proof of their ability for loan repayments either in the form of assets or with co-signers' guarantee(s).*

Commercial microfinance can be seen as an off-shot within the existing financial regulation framework. Despite the presence of a large number of organisations delivering microfinance services, the poor outreach, slow growth, and lack of financial viability have afflicted the microfinance industry in the USA. Of the total 88 million underbanked and unbanked people (Glinska, 2014; Bartmann, 2015), PGA1 estimated that the existing MFOs in the USA *brought into its financing umbrella less than 1%* of 25 *million unbanked* (Narain et al., 2015: 33) population. The microfinance market in the USA is still green and underserved. The potential is enormous. The sector is outside the mainstream financial institutions, rely on low-cost funds and operate mostly as charitable organisations. In this context, it is interesting to see that within less than eight years, GA has become the largest nationwide microfinance organisation in the USA. Sharing GA's medium-term plan to expand the organisation's client-base to 150,000 by the end of 2018, PGA1 claimed that *GA is the fastest growing microfinance organisation in the USA*. It seems to strike a chord; a way forward. The following section looks into GAs features, its efficacy and growth.

9.3.5 Institutional Strategy of GA and the Process of Adaptation

Grameen Trust (GT), a sister company of GB, coordinates overseas replication of the Grameen Bank Model (GBM) the process of which connotes two approaches: the BOM (Build, Operate, and Manage), and the BOT (Build, Operate, and Transfer). Alam and Getubig (2010) highlighted yet another approach called the *Build Operate and Own (BOO)*(4). There is no evidence of the third being replicated by GT.

From the observation of global microfinancing scenario, GB replications are of three broad categories: The GB model (GBM), the GB type (GBT), and the GB inspired (GBI). Of the three, the GBM is virtually a clone of GB, adapted with workable modifications. The GBT adopts the critical features of GB design in the process of adaptation in different social and economic conditions. The microfinance models in developing countries, following group-based approaches with built-in savings, are examples of the GBTs. Of the three, a GBI replication is the least similar to the GBM. It may use one or more of GB features or at the least, uses the concept of microloans to be a useful stop-gap solution to economic and financial hardships of low-income individuals. The GBI models can be entirely different from what GB proposes in its moral and ethical underpinnings. Commercial microfinance organisations providing both consumer and microenterprise loans, might reasonably be included as one of the variations of the GBI category.

GA falls within the GBM category and is one of the nine replications outside Bangladesh (GT, 2014b) where GT provides both managerial and technical inputs. The philosophical underpinnings of GA microfinance model are similar to GB (see Section 8.3.2). However, microfinance clients of GA, like GB, are all women. The rationale for this strategy is traceable to the following two premises.

The first is the deep-seated feminisation of poverty (Goldberg and Kremen, 1990; Casper et al., 1994) in the USA as in other countries (Chant, 2003; Medeiros and Costa, 2008; Pressman, 2003). Pearce (1978) stated gender patterns of poverty from 1950 to mid-1970s and concluded that women and women-headed households in the USA were more afflicted with poverty than their male counterparts. This finding has been replicated by a number of studies (Casserly, 2012; Coontzfeb, 2013). Unfortunately, existing policies have been ineffective in narrowing the gender disparity with the concomitant socioeconomic fallout. Against the backdrop of higher poverty rate among the women (DeNavas-Walt and Proctor, 2015), and a discriminatory pay gap (NWLC, 2014; Hegewisch and Hartmann, 2014), *1 in 3 American women live in poverty or on the brink* (GA, 2015: 4).

The second is the assertion by Yunus (1991) that gender inequity in lending can be rectified by creating institutions where women are preferred, and or, the only clients. In the USA, microfinance organisations are gender neutral at best, and GA is the pathfinder in this regard making it a women-only microfinance organisation in the country. This conscious policy choice is encapsulated in the mission statement of GA that defines its philosophical underpinning and is one of the core paradigms of its institutional strategy. The mission statement reads as follows:

> *Grameen America is dedicated to helping the women who live in poverty, build small businesses. We offer microloans, training, and support to empower women entrepreneurs across the country* (GA, 2015: 3).

This women-centric microfinance strategy contains four critical operational guidelines that are vital components of GAs overall design. These are, a) income-based criteria to assess the eligibility of borrowers (i.e. the women who are in poverty defined as below certain income thresholds); b) loans are given only for microenterprises for self-employment; c) training of borrowers tailored to support them grow as disciplined and skilled entrepreneurs; and d) to empower them as a socioeconomic force, not merely treating them as clients in the ordinary parlance.

The following sections discuss the findings of GA adaptation process in the US's legal, regulatory, and socioeconomic contexts. Donaldson's (2001) SARFIT model (Figure 2.1), explains the adaptive process of GA in its governance and management structure including the processes involved in responding to external circumstances. The three pillars of institutional framework of Scott (2009) as presented in Table 2.1 illustrates the underpinning dynamics requiring GA to gain legitimacy of its work in a different institutional environment encompassing the regulative, normative, and cultural-cognitive characteristics of a society. Two of the important traits of GB are its universality of concepts and adaptability of the design without drastically altering the essential features. However, legal and systemic obstacles reduce the potential of the GB model. These aspects are discussed in the following section.

9.3.5.1 Legal and Regulatory Issues

The four key issues that GA had to adapt in its efforts to obtain legal legitimacy to operate its microfinance social business in the USA are, a) registration of the organisation as a not-for-profit company; b) conforming to the US privacy laws; c) compulsory registration of microenterprises; and d) shredding the mandatory savings programme. Any modification of the design in relation to one or more of its essential key drivers may result in a disruptive impact on its efficiency and outcomes.

9.3.5.1.1 GA as a Not-for-Profit Company

GA is a microfinance organisation within the category of Microenterprise Development Organisation (MDO). It is registered as a non-profit, charitable organisation under Section 501(C)(3) of the Internal Revenue Code (GA, 2014). Therefore, the governance and management of the company are more akin to that of a not-for-profit charitable organisation. In comparison, the GB microfinance model is a specialised bank established through Government Ordinance 1983 (GOB, 1990). The legal status of GB allows it to function as a bank with ownership stakes. The legal status of GA has taken away some of the essential enabling features that make GB a model microfinance social business enterprise. PGA1 deplored that:

> *Due to the non-existence of a relevant law in the USA to establish a separate bank like GB, GA was registered as an NGO with its inherent limitations to fully function as a microfinance social business like GB.*

A 12-member Board of Directors is the governing body of Grameen America (GA). Most of the board members are either involved in poverty-focussed development programmes or represent equity investors and foundations that have useful links in fundraising and networking support for GA. Out of the 9-member Executive Leadership team, only three (i.e. Chief Advisor Operation, Chief of Programme and Strategy, and Chief Finance Officer) are engaged in the management and field operation, reporting directly to the President and CEO (PCEO). Other executive team members are primarily involved in fundraising and associated event management activities, donor liaison, publicity, external networking and partnership development. The actual field level operation of GA is run by the 3 Regional Directors (RD), all of whom are former GB officials. They report directly to the PCEO who is assisted in her work by the Director, Operations Support. The current level of GA's operation extends to 18 branches in 11 states under three regions. The governance and management of GA are illustrated in Figure 9.3.

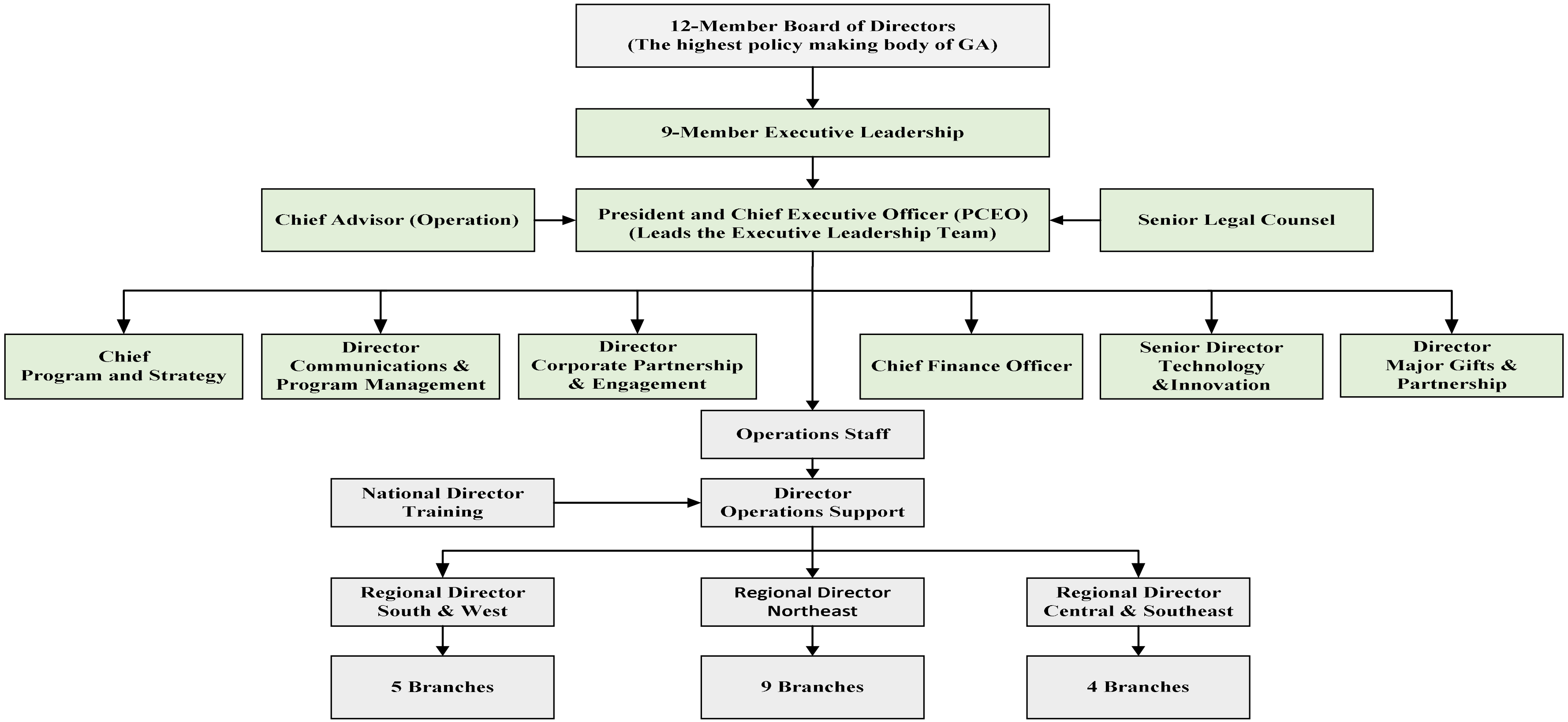


Figure 9.3 Governance and Management of GA

Source: Internal Documents, Annual Report of GA (2015), and Field Visits.

One of the challenges confronted by the management is a dearth of experienced personnel to run the operation (PGA1 and PGA3). Six of 18 Branch Managers (BM) and all the Center Managers (CM) in branches are local recruits, trained in an institute established in Long Island City, New York. The institute is managed by the National Director, Training, a former officer from GB. PGA1 informed that:

> *The training curriculum and capacity are being upgraded to train an increasing number of staff to support the current expansion programme of GA across different states of the USA.*

A long-term goal is to transfer the management of the company to local staff as part of the transition from its existing BOM to the BOT approach under Grameen Trust (GT) replication strategy.

Similar to GB, the branches of GA are primary accounting units and aim for self-sustaining operations. Regional Offices directly supervise the branches eliminating the Area Office (AO) concept of GB. Doing away with the AO has minimised the supervision cost and facilitated direct supervision of a branch by the Regional Director. As a tax-exempt organisation, GA has the Deductible Gift Recipient (DGR) status and is eligible to receive grants and loans from both Government and private sources. Available evidence suggests that the nationwide expansion of GA's operation was facilitated by generous grants and soft loans from both public and private sources (GA, 2015: 17,19,20). However, under the existing legal status of the organisation, the full potential of the GB model, is difficult to achieve.

9.3.5.1.2 Privacy Laws in the USA

Privacy laws in the USA encompass safeguarding private information from being accessed by the Government or shared with any third parties (Levin and Nicholson, 2005; Garrow, 2001; Newell, 1998). However, financial privacy in the USA (USC, 1978; FTC, 2002) is a sensitive issue requiring proper caution while conducting financial transactions in an open and transparent manner.

In the GA model, loan proposals are discussed and approved in Center meetings. Conscious of this regulatory issue, as part of compliance with privacy laws, only the Center Mangers (CM) and the loan approving authorities (i.e. Branch Managers (BM) and Regional Directors (RD)) have access to the clients' information. PGA1 clarified that *access by the GA staff is* *essential to conduct due diligence before providing loans to clients*. PGA3 further elaborated that:

> *During the group training, as part of the orientation of prospective clients about GA's loan conditions and associated compliance requirements, the nature of information essential to be shared in the Group and Center meetings, are discussed and resolved.*

All the three informants (i.e. PGA1, PGA2, and PGA3) stated that sensitive personal information is kept outside the scope of both formal and informal discourse with clients. As a further precaution, the financial and non-financial information of customers are protected from being accessed by anyone outside the system without a valid password. Currently, the gBanker software is used to record, process, monitor and protect all the information of borrowers. GA has not faced any untoward incident relating to privacy laws in the conduct of its business. In contrast, privacy and legal matters in Bangladesh appear to be handled lightly.

9.3.5.1.3 Registration of Microenterprises

In the USA, every business, irrespective of its nature and size, must be registered with the tax department and obtain permission from related local councils. Low-income US citizens and legal immigrants receive food stamps and various forms of state support. Therefore, resorting to any income generating activities or businesses require them to report to the tax and relevant departments as part of monitoring and updating their income status. In contrast, microenterprise clients in Bangladesh, and those in many other developing countries are not subject to regulated business compliance. These regulatory issues have restraining effect on the prospective customers to borrow and invest in microenterprises in the USA.

A detailed list of documents, in addition to an applicant's income and asset status, is essential to apply for a loan from GA. The list includes Social Security Number (SSN), Proof of Address (POA), Individual Taxpayer Identification Number (ITIN), Business Tax Number (BTN), and permits from relevant authorities to run a business.

Since all loan transactions with clients are conducted through banks, each client has to open a bank account with any designated commercial bank. Opening an account requires three levels of identification (ID), i.e. primary, secondary, and address verification. All these entail an extensive list of documents, non-compliance of which automatically excludes an individual from accessing banking facilities in the USA. So, one of the pre-requisites for a GA loan is to be eligible to open a bank account.

PGA3 insisted that despite the associated hassles in obtaining the legal documents before a loan is finally sanctioned, there is no dearth of willing applicants for microenterprise loans from GA. PGA1 argued that:

> *Various types of documents help establish the genuineness and traceability of applicants in a multicultural society where mobility of citizens is easy and more frequent across councils, cities, and states.*

9.3.5.1.4 Shredding the Mandatory Savings Programmes

Despite GA's efforts to retain the operational features of the GB model, its registration as an MDO; a charitable organisation, forced it to discontinue the mandatory savings strategy. According to PGA1:

> *Since, under the existing legal structure of GA, we are not permitted to mobilise deposits, we require each borrower to open a savings account with the designated servicing banks. Borrowers are now encouraged to deposit two types of savings at the moment: personal savings of USD 10 paid at the rate of USD 2 for five days during group training session, and weekly savings during Center meetings at varying rates based on the amount of loan a borrower avails from GA.*

The legal restriction on savings in the USA, decapacitated GA to institutionalise the mandatory savings programme, a critical building block of assets for GB borrowers.

The power of institutionalisation of savings is transformative. Yunus (2009) was critical of restricting the MFOs to take deposits on the ground of risk involved in microlending without conventional collateral. Yunus (2009) deplored that:

> *It is strange that conventional banks that lend money to the well-to-do, and that often have repayment rates of 70 per cent, or even lower, are allowed to collect a huge amount of public deposits, while microcredit institutions of loan repayment rates of 98 per cent or better are forbidden to do the same thing* (70,71).

Yunus (2009) further argued that:

> *If the problem is the lack of legal coverage, let us remedy that. Let us create a law to convert microcredit organisations into microcredit banks, bring their programs within the framework of law and create a regulatory body for microcredit organisations.* (71).

Unfortunately, despite emulating GB in its programme design, the full potential of GA is restricted by the very nature of its being. This aspect is further discussed in Section 9.3.6.1 (Legal Structure of GA: Effect on Savings and Financial Viability).

9.3.5.2 Socioeconomic Issues in the Adaptation Process

While microfinance is now recognised as one of the important tools for financial inclusion, different methods of programme delivery in a multitude of socioeconomic settings show mixed outcomes. Considering differences in socioeconomic environments, the replication of the GB model in the USA is not straightforward. Schreiner and Morduch (2002), Taub (1998), and Weaver (1999) were apprehensive about the effectiveness of microfinance in a developed country like the USA. Some of the socioeconomic issues cited included 1) an extensive safety net programme (SNP), 2) a small market owing to an absence of widespread poverty, and 3) the social ethos of individualism in a multicultural society.

A key feature of GB that has been instrumental in maintaining a steady focus on its member-clients' economic and social progress is its social development agenda (SDA) illustrated in Figure 8.5. As an MFO, GA has found it critical to embed SDA in its microfinancing strategy. The SDA, along with the above three issues, are discussed here as components of GA's socioeconomic adaptation process.

9.3.5.2.1 SNP and its Influence on Microfinance Programmes

The SNP is an indicator of people in economic hardship in a developed country (Cruz et al., 2015; WB, 2015; Danziger and Danziger, 2005). The extent of poverty in the USA can be estimated from the annual welfare expenditure of about a trillion dollar per year (Winfree, 2015) to support low-income individuals (Riley, 2012). The range of welfare benefits includes cash, food, housing, medical care, and social services (Spalding, 2012). The Supplemental Nutrition Assistance Program (SNAP), popularly known as food stamps, is America's second largest component in its means-tested SNP after Medicaid (Tanner, 2013). The SNAP serves about 46 million people (Bjerga, 2016). Recipients of food stamps face a range of issues comparable to the asset-less struggling individuals in developing countries. The number of food stamps recipients constitutes about 47% of the people receiving welfare benefits under federally funded means-tested programmes (Jeffrey, 2014). This proportion represents a significant number of people living in relative income poverty and in extreme economic hardship than is usually believed. A number of commentators argue that the state dole and subsidies provided to the low-income individuals make them less willing to work (Economist, 2013; Steuerle, 2013; Kaufman, 2003; GPO, 2013; Hayward, 2015). Therefore, without effective alternative arrangement and motivation, transiting working-age dole dependent able-bodied individuals to income earning opportunities, contributes to the financial and social liability of the US Government (Cooke et al., 2012; Rector and Bradley, 2012).

Since means-tested welfare programmes (Rector, 2015), are linked to incomes of the welfare recipients (Laffer, 2013), marginal incomes from microenterprises or similar sources might not always be attractive to many welfare dependent individuals. PGA1 reported that:

> *For availing loans from GA, every borrower is required to open a savings account in a commercial bank. This automatically removes the relevant borrower from accessing food stamps, and with an increase in income, from other forms of welfare payments.*

Opening a bank account is a part of 'know your customer' (KYC); a system to identify the clients and their credentials by the US businesses.

PGA3 did not dismiss the observation that SNP, to a large extent, can discourage the dole-dependent individuals applying for microloans for fear of losing the welfare payments. The discussion with the informants, including three of the GA borrowers (i.e. PGA5, PGA7, and PGA8) suggests that food stamps, and other forms of support under SNP being outright grants, are crucial for many indigent individuals to survive on a daily basis. The rationale that explains opting out from an essential support of SNP is the nature of GA being more than a mere loan provider or a financial cushion to tide over a temporary hardship. It primarily organises its borrowers into a socioeconomic formation defining a pathway out of poverty. PGA3 argued that:

> *Those who decide to borrow from GA are motivated at the prospects of their economic future and are willing to sacrifice immediate loss of food stamps and a proportionate decrease in cash and non-cash welfare support.*

Another motivation for borrowers of GA, as explained by PGA1:

> *Is to increase the GA clients' credit rating/score to enhance their prospects to borrow from the commercial banks. To this end, GA has established a partnership with Experian plc, a credit rating agency, feeding it with the loan repayment history of GA borrowers to increase their credit scores.*

A minimum credit score of 650 or better makes a borrower creditworthy to a commercial lender. In terms of this criteria, a GA borrower with a perfect repayment history can achieve an *average score of 670 within first six months* (GA, 2015: 8) of borrowing from GA.

Narrating the experience of the failure of Good Faith Fund (GFF), one of the earliest replications of GB in the USA, Taub (1998) reported that SNP can be a constraint for many low-income individuals as there are limits on the value of asset-holding to receive a state dole. Many poor cannot afford to lose the support without income assurance from one or more family members. This failure of the GFF, according to PGA1:

> *Was the result of the design of the system, and non-adherence to the best-value principles of the GB model. GA provides loans and financial training to manage their microenterprises to put them on to a path of self-employment.*

It is evident that enterprising individuals who are less reliant on welfare payments but are underbanked or unable to access loans from mainstream banks have less of an issue with SNP. For this reason, the commercial microfinance and many of the CDFIs requiring either asset-based collaterals or external guarantees for loans, mainly finance clients who belong to the upper echelon of the relative poverty category (Townsend, 1979; Förster and Pearson, 2002; Johnson, 1987).

Despite the size of the unbanked population in the USA and the existing outreach by MFOs, including GA, the microfinance industry is still in its infancy. The SNP is a basic policy tool in containing inequality in a capitalist economy with deep political and social consequences. Under the existing strategy of economic management in the USA, doing away with SNP does not seem to be an easy option. Therefore, to attain fit and efficiency in its programme outcomes, the GB microfinance model, needs to adapt to both internal and external contingencies as an organisation (Donaldson, 2001; Pennings, 1992), and accommodate the sociocultural norms and values as part of gaining legitimacy (Scott, 2009) in the American multicultural society (Wilkinson, 2015) within a capitalist economy.

9.3.5.2.2 The US Market Size and Absence of Widespread Poverty

Canale (2010) downplayed the idea of mainstreaming microfinance by suggesting it to be:

> *A 'third way' mitigating the exasperated market distortions without recurring to welfare mechanisms. Finance for the poor will find so much space and will be so much more profitable if the country is in a state of underdevelopment. It adds a new element of propulsion for growth, does not exacerbate conflicts typical of the market, and does not use donor practices* (9,10).

The above argument stems from the assumption of a small number of unbanked poor in a situation of relative poverty in the context of developed countries, the USA included. Canale (2010) defended the status quo to avoid market distortion and conflicts in markets dominated by collateral-based lending strategies. This sort of proposition discourages innovation and depicts a minimalist scenario of exclusion and poverty in the USA belying the ground realities discussed in Sections 9.1 and 9.3.2.

Another perspective defining the size of a microfinance market in the USA is based on an assumption by Lieberman et al. (2012) that people engaged in informal jobs, defined by ILO (2002) as part-time, casual or wage earners in non-agricultural employment, were key recipients of microloans. In the USA, data on the size of informal job market is reported to vary widely (George and Chattopadhyay, 2015; Bracha and A., 2014). According to Nightingale and Wandner (2011), *the range of the estimated informal employment in the United States, is 3 to 40 percent of the total workforce* (2011: 5). Vollme (2016) reported that:

> *The contingent workers (part-time, self-employed, independent contractors, temporary workers, on-call and day laborers with "alternative" or "nonstandard" work agreements) to be 60,000,000 employed Americans or 40% of the total employed workforce (private sector and government). By 2030, this percentage will rise to over 50%.* (9).

The flaw in the estimation of microfinance market size, based on either number of people in informal employment, or size of a firm, automatically excludes the unemployed and those on food stamps (DeNavas-Walt and Proctor, 2015; West and Odum, 2016; Bello, 2015). These types of criteria as promulgated by Lieberman et al. (2012) are unhelpful in enacting appropriate regulations and formulating effective policies to reform the sector.

PGA1 and PGA3 insisted that behind the façade, millions of Americans are in desperate need of financial support. The growing size of payday lending in America, estimated at more than USD 7 billion annual transactions in 2010 (Bourke et al., 2012), is a partial view of the nature of poverty and exclusion. Financial exclusion, a form of discrimination and economic marginalisation, is one of the contributing factors in the creation of the deprivation trap posited by Chambers (1983).

PGA1 suggested that *in the USA, an effective way of knowing the people's hardship is to count the pawn shops and payday lending booths*. Millions of people on food stamps (Bjerga, 2016; Bello, 2015), those in economic hardship (i.e. 47 million) (DeNavas-Walt and Proctor, 2015), and those outside the banking system, (i.e. 63 million underbanked) and unbanked (i.e. 25 million) (Narain et al., 2015), reconfirm, from different perspectives, the presence of persistent poverty. If not extreme, about 14.5% (n = 46 million) people living on daily food stamps (Batley, 2015), is quite revealing.

The obfuscation underlying the real story behind any rhetoric might ignore enacting and implementing effective policies to redress the perpetuation of poverty and financial exclusion. All the three key executives from GA (i.e. PGA1, PGA2, and PGA3), insisted that the real picture of the US poverty would be exposed in the absence of food stamps, and other forms of income support provided to low-income individuals. There is a reason to argue that those individuals, relying on food stamps in their everyday living, in addition to receiving other forms of support from the government and private welfare organisations, might be trapped into a severe poverty spiral in the event of any economic downturn.

Considering the preceding, it may be prudent to reckon the nature of extreme inequality, expressed among others, in the form of denial of opportunities to access financial resources by unbanked and underbanked populations, to measure the depth and efficacy of a microfinance social business market in the USA. Therefore, it is more to do with the lack of opportunity rather than debating on the comparative nature of poverty between a developed and a developing economy.

9.3.5.2.3 Social Ethos of Individualism

Immigrants constitute the rich texture of cultural mix of the American Society (Griswold, 2002; Weaver, 1999). Like traditional societies, there is no homogeneity or a common denominator that can aptly describe a dominant cultural trait other than retaining a fierce sense of individual identity, termed as individualism in a multicultural mix endeavouring to forge itself as an inclusive nation. Two popular metaphors: 'melting pot', and 'salad bowl' describe American multiculturalism (Thornton, 2012). The words melting pot, coined by the British writer Israel Zangwill in 1908 (Higgins, 2015) was meant to blend the immigrants from different countries, race, and culture into a distinctly American identity. While this process of assimilation was inclusive in intent, it envisaged sacrificing the immigrants' cultural and ethnic identities that many consider a trigger to racial tension instead of a sense of common bond to work together. Therefore, the metaphor of salad bowl attained a quick lexicon in the late 1960s capturing American pluralism of egalitarian multiculturalism. The economic prosperity of the USA is attributed to the creativity and hard work of immigrants (Hoffman, 2013) prompting Weaver (1999) to identify *self-reliance and independence as two pioneer values* (7) of the American Society. These values, when translated into economic terms, effectively stand for economic individualism (Walls, 2015) for self-aggrandisement with the resultant push for gender equity in both family and social spheres. Economic individualism provided more opportunities to women than ever before to be financially independent. Williams (1970) rejected the notion of:

> *American individualism as a lone cowboy culture of individual estrangement from social groups*. Instead, he (i.e. Williams) argued that *American individualism, is mainly a rejection of the state restraints upon economic activity; it has not tended to set the autonomous individual in rebellion against his social groups* (485).

Fischer (2008) was not entirely convinced by William's (1970) arguments and insisted on the multivalent character of the American culture where an extreme form of individualistic behaviour might conflict with the group interest. According to PGA1:

> *American individualism, whatever its connotations are, did not dissuade the low-income individuals to work in a group for furthering their economic interests.*

This behaviour of GA clients aligns with Williams's (1970) characterisation of the American individualism, and the metaphor of 'salad bowl' of a pluralistic society in which individuals work and cooperate within their sociocultural confines without alienating their American identity. PGA1 elucidated his experience in the following words:

> *Here (in the USA) we have formed groups with different ethnic and country backgrounds. However, it is easy to form groups from similar ethnic backgrounds. The*

key dynamic in the group formation is the motivation for economic interest. The important issue is to convey the message to the clients in clear terms, that it is in their interest to work in a group for mutual support and assistance, and also to get social values by bonding together.

Terming the group-based microfinancing as a critical social-collateral, PGA3 cited an incident of a client, a Mexican immigrant, who left the country without repaying her debts. The group members contacted the lady and organised the loan repayments to GA. On the question of apathy to the group-based microlending by the US microenterprise providers, PGA2 explained that:

People in the USA decide independently and are not coerced or let down by social taboos. Once they understand that it is important to be in a group as part of borrowing, they readily cooperate. Since, most of them can read and write, and unlike in traditional societies can move and interact more freely, become better clients, and respect the value of discipline and cooperation. This has enabled us to coordinate the groups and enforce discipline more effectively.

According to PGA1:

The hype of individualistic social ethos in the USA as part of antipathy to organising group-based microfinance operation is attributable to the untested notion of inappropriateness, or lack of know-how in managing such operation.

In the same vein, it is reasonable to argue that the notion of American individualism might have been construed to be a disparaging influence on the social-collateral that group-based microfinancing reinforces.

9.3.5.2.4 Embedding of Social Development Agenda

GA emulated the concept of Social Development Agenda (SDA) from GB in a three-day workshop of the Center Chiefs from three different branches within New York City during 19 to 21 January 2013. The Center Chiefs represented the ethnic mix of the American multicultural society. The SDA of GA (Newaz, 2013), containing the following decisions, represent the self-selected socioeconomic charter of commitments by GA borrowers.

1) *We pledge to maintain discipline in our Groups and apply these same principles to our business and personal lives. We will select a comfortable and safe place to hold our weekly Center Meeting.*

2) *Trust and good conduct are important parts of our Center community. If we come to know of any breach of trust or discipline, we will take responsibility to tell someone and work together to restore discipline at our Centers.*
3) *We shall maintain our savings programme and shall create assets and expand our business with the help of our savings programme.*
4) *We shall monitor our health and seek preventive healthcare for ourselves and our family. We will avoid any and all risky behaviours that will affect our health.*
5) *We will exercise responsible financial behaviour to build our credit history* (Newaz, 2013: 64).

The above decisions envisage fostering socioeconomic bonding and mutual commitment to each other, defining their special relation to GA that provides training along with credit in transforming their lives. PGA1 reiterated that *SDA is neither interventionist in its nature, nor is it a coercive process to enforce discipline and compliance to GA's rules.* However, the commitment to maintaining the savings programme by GA borrowers as part of asset building could not be institutionalised owing to the legal impediments in the USA.

All the six borrower-informants (i.e. PGA4, PGA5, PGA6, PGA7, PGA8, and PGA9) were enthusiastic about the SDA, and shared their excitements as members of solidarity groups. Borrowers found the commitments to be reassuring and experienced a special bonding among themselves. According to PGA3, who worked for GB in Bangladesh, and had the experience working in Myanmar and Mexico before joining GA, observed that *in the USA, the poor, especially the single mothers, find SDA to be a good platform to develop a network of mutual support.*

GA training institute organises clientele educational programmes at least twice a year in the form of workshops participated by the Center Chiefs. These workshops discuss various issues pertaining to the participants' socioeconomic progress based on their commitments enshrined as the SDA. PGA3 underscored the benefit of organising workshops for the Center Chiefs on the premise that these events not only bring together people from various ethnic backgrounds sharing their problems for mutual support from each other's experiences in managing their microenterprises, but also help in building a unique bond among members of a special socioeconomic group working for a common cause.

PGA3 observed that microfinance clients of GA:

> *Are more literate, more aware of their responsibilities and can be trained easily. Here no woman is restricted by any religious taboos like that of borrowers in Bangladesh, or in any other place where these are issues.*

The above observations from the experience of GA help explain the underlying rationale for incorporating self-selected socioeconomic guiding principles in re-organising the daily activities of individual borrowers in a multi-ethnic developed economy like the USA. The hand-holding, at least during the initial years of engagement and growth, seems to be rewarding for first-time borrowers seeking institutional credit from a financial institution.

9.3.5.3 Modus Operandi

The data obtained through site visits, primary interviews, internal documents, published and unpublished company information clearly show that GA has retained the core elements of the GB microfinance model. In adapting to the US circumstances, GA recalibrated its institutional strategy, conformed to the legal and regulatory requirements (see Section 9.3.5.1), and accommodated socioeconomic issues (see Section 9.3.5.2) as part of achieving institutional legitimacy and operational validation. This process of adjustment is reflected in GA's conduct of its field level activities (i.e. the modus operandi). The areas where GA did not compromise the best value principles in modus operandi as part of adapting to the US conditions are, clients training programme; Center and Group dynamics; weekly collection system; initiation, processing and approval of loan proposals; loan delinquency management; and a strict monitoring and supervision regime. PGA1 reiterated that *GA* is *particular in sticking to the basic principles while adapting to local conditions.* The areas where minor adjustments were made without altering the core design are discussed below.

9.3.5.3.1 Client Selection: Group and Center Formation

Clients, who are called members by GA (Newaz, 2013), belong to age groups ranging from 18 to 55 years, that is, anyone within the poverty thresholds, willing and able to engage in microbusinesses. They are selected strictly by their annual incomes. GA follows the poverty thresholds determined by the US Department of Health and Human Services (USDHHC). Table 9.1 shows the poverty thresholds at the end of 2014. Clients should be willing to be a member of a self-selected Group consisting of five individuals. Two to seven Groups are federated into a Center. PGA3 informed that:

> *The flexibility in determining the size of a Center is to ensure members' convenience in attendance and conducting weekly Center meetings considering the local circumstances. A full-blown GA Branch is expected to have about 3500 to 4000 members.*

Similar to GB, none of the members can avail any loan from GA without belonging to a Group. In a multicultural society like the USA, members of a Group are required to have specific addresses and are preferred to be from a similar ethnic background. All members of Groups and Centers are selected from surrounding neighbourhoods of a branch or are within an easy supervision span. The methods of group training, final recognition, and loan disbursement are similar to GB approach. PGA3 stated that:

> *Racial and cultural heterogeneity did not stand as a challenge to GA. More than 90% members of GA are Hispanic or Latino who migrated from countries like Columbia, Dominican Republic, Mexico, El Salvador, Guatemala, Cost Rica, Argentina, and Nicaragua. Rest are from various nationalities from Asia and Africa. There is general tendency that people from different nationalities and ethnic groups live in clusters and, or in proximity to each other and therefore, a degree of homogeneity in Group and Center formation was achieved.*

The empirical evidence from GA suggests that in a developed economy with a multicultural societal mix, group-based microfinance model is workable. In the operating design sensitivities around gender, ethnic, and cultural differences, spatial proximity of target clientele and a reasonable income homogeneity among self-selected group members, seem important ingredients that help to achieve well-functioning Groups and Centers following the GB model.

9.3.5.3.2 Loan Products

GA keeps the loan products simple. According to PGA3:

> *Loans are categorised as enterprise loans, basic loans, and a 2-year car leasing programme or a car loan. All loans exceeding USD 7,000 are enterprise loans, and those below that limit are basic loans.*

Basic loans are given to clients borrowing for the first time with or without any previous business experience. The eligibility for enterprise loans is restricted to borrowers with existing businesses demonstrating their ability to service bigger instalments without any inconvenience. The clients of basic loans can graduate to enterprise loans by taking repeat loans subject to excellent loan utilisation and repayment performance. A car loan is provided to borrowers to facilitate marketing their products. Criteria for car loans are more stringent when compared to the basic and enterprise loans. Only members of a two -year old branch with 100% loan repayment records of all members in the Center to which an individual belongs, are eligible for car loans. The relevant car loan applicant has to be at least a 4^{th} cycle borrower. Car loans are tenured for a maximum of two years. All other loans are repaid within six months to one year. Loans and interests are repaid in weekly instalments and collected in pay orders or money orders during Center meetings.

The simplifying of loan products gives borrowers the scope to be innovative in selecting any investments/activities of their choice that have the potential to connect them to the economic value chain generating self-employment.

9.3.5.3.3 Rate of Interest for Loans

GA follows a simple interest rate of 15% per annum for all its loan products. PGA1 informed that:

> *Credit cards and personal loans from commercial banks in the USA are provided at interest rates of 20%, and 9.24% or around it, respectively.*

PGA1 further explained the underlying rationale of GA's interest rate in the following words:

> *The rate of 15% was based on the assumption that most of the loans, except car loan, is short term, that is, repaid within one year, and compared to existing market rates charged by commercial microfinance organisations, GA's rate is reasonable.*

GA's interest rate is lower than credit card rates but higher than rates for personal loans from commercial banks. However, PGA3 pointed out that *GA does not have any hidden costs other than charging a simple interest rate on all its loan products*.

Interest rates of commercial microfinance organisations in the USA can be as high as 80% per annum. However, the MDOs and CDFI Loan Funds operating as charitable organisations, have lower interest rates, ranging from 8% to 15% per annum. The interest rates of various organisations within the microfinance industry matrix, as illustrated in Figure 9.2, were discussed in Section 9.3.4.1. Being a social business enterprise, GA seeks to recoup its operating costs from its operating revenue. Therefore, comparing, and rationalisation of GA's interest rate based on the prevailing market rates of commercial operators seems reasonable. Furthermore, interest is one of the key factors in financial viability discussed in Section 9.3.6.

9.3.5.3.4 Enforcement of Credit Discipline and Delinquency Management

GA implements elaborate operational guidelines in managing the credit discipline of its clients, known as members in GA's nomenclature. The enforcement of credit discipline is a process to invoke an effective social-collateral by involving the Groups and constantly reminding the members of their commitments in the SDA. The regular Center meetings and biannual Center Chief workshops are important compliance monitoring platforms where Center Managers with the advice and guidance of Branch Managers are the key facilitators (Newaz, 2013).

PGA1 described the special arrangements put in place to supervise and advise struggling clients in Center meetings. Since, Group members work within a Center, any client who is not up-to-date with loan utilisation and repayments are being tracked through on-line monitoring system in which warning signals are emitted to pay particular attention to any struggling clients. PGA3 explained that:

> *Good performing members of Groups are regularly reminded of the consequence of default and irregular performances of their fellow members that might also affect their repeat loans, credit score, and future borrowing prospects.*

PGA2 argued that *effective enforcement of peer pressure and peer support is one of the primary purposes of group-based microlending*. The need is all the more significant due to the absence of mandatory savings programme in GA's modus operandi as this could have created contingency cushion for borrowers to fall back in the event of any lean period or seasonality or loss of capital by microentrepreneurs. Against this perspective, GA's vulnerability is apparent being devoid of internal resilience in the form of insurance, and the availability of ready cash from mandatory savings as in GB, during difficult periods when discipline crumbles under financial stress.

GA has established an interactive online Monitoring and Evaluation (M&E) system following GB, run on gBanker software. The system reportedly can process and analyse raw data down to details of a specific borrower's performance.

Elaborating on the causes of loan defaults, a simple strategy that GA implements is explained by PGA1:

> *The loan diversion is one of the triggers of default and indiscipline. Therefore, loan utilisation is closely monitored to create a culture of on-time payment. To this end, Group and Center leaders are also encouraged to visit struggling members at their convenience to see how they are performing with their businesses. They do it as friends and peers to support and encourage, and any deviation is discussed within the Center and Groups*.

It is evident from GA's elaborate procedure in enforcing credit discipline and managing defaults that laxity in any of the processes mentioned above, might compromise the integrity of the system, and trigger loan defaults. The findings suggest the effectiveness of GA's strategy as reflected in its overall loan portfolio growth during the previous eight years and consistently maintaining an overall loan *repayment of 99%* (GA, 2015: 8).

9.3.6 Financial Viability of GA

As discussed below, the financial viability of GA is examined on the basis of three key premises. These are:

1) The legal nature of GA and its effects on savings and financial viability;
2) Current funding sources and overall operational trends;
3) Key factors for branch viability.

9.3.6.1 Legal Structure of GA: Effect on Savings and Financial Viability

The charitable nature of GA does not require it to be financially self-sustaining. The GB model accommodates sociocultural and demographic differences; it is, however, unable to overcome legal and regulatory restrictions on savings mobilisation which have a direct bearing on attaining long-term financial viability of GA.

GA's relationship with its customers/members is not limited to financial transactions only. As has been mentioned earlier, it is a socioeconomic formation, helping members to move out of poverty and financial exclusion through a well-defined process. Another limiting factor constraining GA is its inability to design different insurance products and contingency funds that GB institutionalised in its lending system to hedge its borrowers from unforeseen events like loss of capital or theft of assets, or any incident that has a damaging impact on their businesses. An effective savings mobilisation strategy also builds the organisation's self-reliance without having to depend on grants and philanthropic support. All the above features are absent in GA owing to legal restriction.

Restriction to mobilise savings has also forced GA to rely mostly on donations and contributions to finance its lending and non-lending (i.e. training and workshops, equipment, furniture, vehicles, etc.) activities. The current voluntary nature of its members' savings does not seem to have delivered the expected outcomes of asset-creation strategy as is found in GB. PGA3 reported that *in the absence of any institutional enforcement mechanism, most GA members do not place a high value on saving.* As it stands now, GA is unable to replicate the GB system of easy mobilisation of savings that accumulate with every loan cycle; thereby increasing the organisation's liquidity and manoeuvrability to invest and expand its operation without being constrained by donor conditions. GB's ability to mobilise savings has been one of the cornerstones of its financial independence. Moreover, in a non-collateralised financing mechanism an in-built savings and insurance strategy along with social-collateral help to reinforce credit discipline and to shield an organisation from loan defaults. Despite a strong delinquency management strategy, this systemic weakness is noticeable in GA.

The following section discusses GA's funding sources and overall operational trends relevant to its financial viability.

9.3.6.2 Current Funding Sources and Overall Operational Trend

From the perspective of financial viability, GA accomplished two short-term objectives: an ability to organise resources to finance its growth, and setting the trend towards cost-recovery as part of its effort to reduce donor dependency. These two aspects are discussed in terms of the organisation's potential to be a self-sustaining microfinance social business within its current legal boundary.

PricewaterhouseCoopers (2016) in its 2015 audit report on GA stated that:

> *The organisation is dependent on donations and contributions for funding. For the years ended December 31, 2015 and 2014, the largest five donors accounted for approximately 51% and 53%, respectively, of unrestricted and temporary restricted contributions revenues* (6).

In its 2015 Annual Report (2015), GA recorded *55 funding partners, 21 lending partners, and 20 in-kind sponsors* (19,20). PGA1 stated that *most of the grants and donations that GA received were subject to matching fund requirement* which it borrowed from foundations, institutions, and individuals against promissory notes that constituted about 45% of its total assets or 89% of total liabilities at the end of 2015. These notes are long-term involving various interest rates, ranging *from 0% to 3% per annum* (PWC, 2015: 9).

Figures 9.4 and 9.5 show the income and expenditure of GA during 2015. Figure 9.4, shows that interest from loans to GA borrowers was 30% or USD 5.64 million of the total income during the year. Donations and contributions constituted 69% of its total income, in 2015 alone, resulting in a net income/surplus of USD 3.96 million with an operating income (i.e. interest from loans) covering slightly more than one-third of the total expenses during the year (PWC, 2016). Staff salary and professional fees constituted 72% or USD 10.63 million of the total expenses of GA during 2015. PGA1 insisted that in order *to retain quality professionals, the compensation package for the GA staff had to be competitive*.

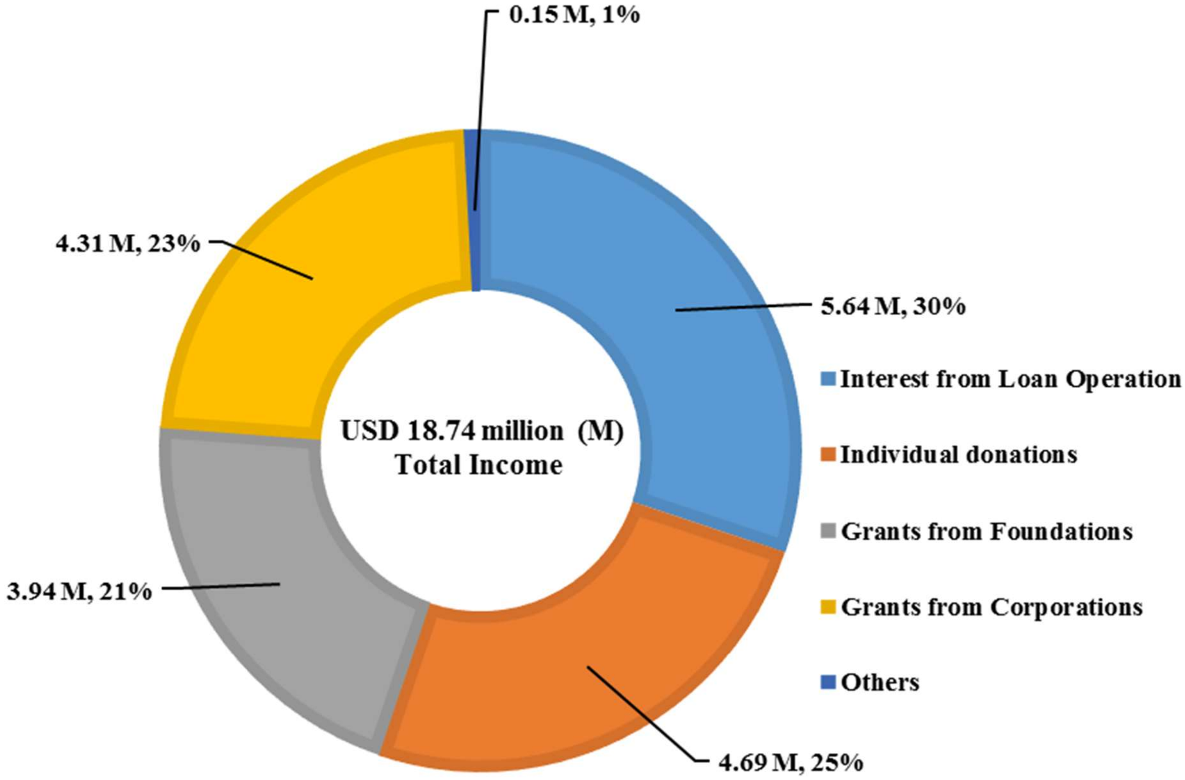


Figure 9.4 Income of GA in 2015

Source: Adopted from GA (2015) and PWC (2016).

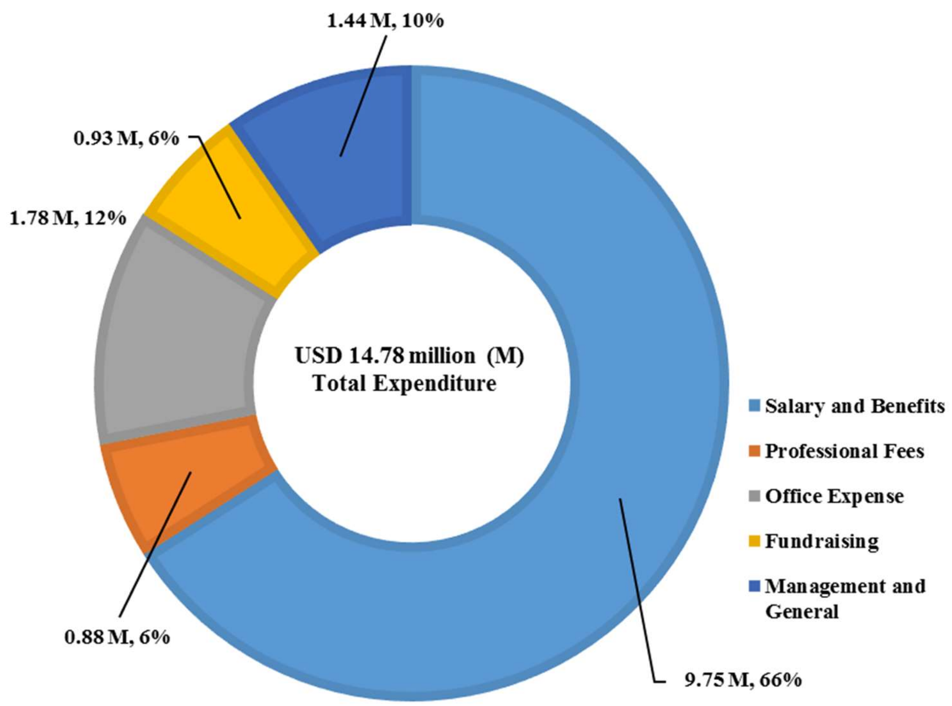


Figure 9.5 Expenditure of GA during 2015

Source: Adopted from GA (2015) and PWC (2016).

Being a highly supervisory loan operation with small loan sizes, the cost of operation of GA is constantly under pressure. Without vertically expanding its loan operation (i.e. increase of average loan size and number of borrowers per employee) and diversifying its financial products to increase its overall income, this situation is expected to be a challenge for GA in the near term.

A performance trend of GA during 2011 to 2015 as shown in Table 9.7 reveals slow but steady progress towards financial self-reliance. Three branches of GA in New York City became financially self-reliant within six years from their respective commencement dates. The total number of GA borrowers increased from 9,155 to 64,295 at the end of 2015, a 600% membership growth since 2011. A corresponding increase of loan disbursement and outstanding, maintaining a low default rate of about 1%, a persistent increase in operating income (i.e. interest from loans) and minimising the dependency on donations and contributions, demonstrate the resilience of GA as an organisation striving to achieve financial self-reliance. Despite incurring an operating loss in each year since its inception, GA accumulated a net asset of about USD 31 million at the end of 2015.

Table 9.7 Performance Trend of GA from 2011 to 2015 (Amounts are in Million USD)

Description	2011	2012	2013	2014	2015
Number of Branches	6	11	12	18	18
Number of Borrowers/Members	9,155	15,455	26,300	43,204	64,295
Annual Increase of Borrowers/Members (%)	88%	69%	70%	64%	49%
Cumulative Loan Disbursement	32	66	129	230	382
Loan Outstanding	6.26	11.11	19.82	32.5	43.86
Loan Outstanding Per Branch	1.04	1.01	1.65	1.81	2.44
Total Assets	18.32	27.16	40.47	45.54	62.31
Total Net Assets	11.38	19.65	27.21	27.86	30.46
Annual Increase of Net Assets (%)	141%	73%	38%	2%	9%
Annual Increase of Total Assets (%)	116%	48%	49%	13%	37%
Net Assets as % of Total Assets	62%	72%	67%	61%	49%
Total Liabilities	6.94	7.51	13.25	17.68	31.85
Notes Payable	6.04	7.02	12.46	15.81	28.23
Notes Payble as % of Total Assets	33%	26%	31%	35%	45%
Notes Payble as % of Total Liabilities	87%	93%	94%	89%	89%
Total Income	6.5	6.43	15.93	18.91	18.74
Yearly Increase of Total Income (%)	48%	-1%	148%	19%	-1%
Total Annual Donations and Contributions	5.85	15.03	13.74	15.03	12.94
Yearly Increase of Total Donations and Contributions (%)	36%	157%	-9%	9%	-14%
Annual Interest Income	0.65	1.31	2.19	3.88	5.64
Yearly Increase of Interest Income (%)	86%	102%	67%	77%	45%
Annual Interest Income as % of Total Income	10%	20%	14%	21%	30%
Interest Income as % of Donations and Contributions	11%	9%	16%	26%	44%
Total Annual Expenses	3.57	5.58	9.06	12.59	14.78
Annual Interest Income as % of Total Annual Expenses	18%	23%	24%	31%	38%

Source: PWC (2016; 2015; 2013; 2011), GA (2016), and semi-structured interviews with the informants.

As per the Auditor's Report (2016), *a loan loss provision of 1.75% of the gross loan receivable during 2015*(6), is adequate to hedge GA's outstanding loans that recorded an actual default rate of about 1% at the end of 2015 (GA, 2015). Using the actual default rate, GA was able to avoid cash erosion in its lending operation by adding to its principal an amount of about USD 0.1385 for each dollar lent at 15% simple interest per annum (i.e. $P\&I = p(rp) + i(ri)$),where *P&I* represent the total of principal and interest. *p* is the principal amount, and *i,* the rate of interest for a loan. *rp* and *ri* represent recovery percentages of principal and interest respectively). Considering the average cost of borrowing for GA's earning assets to be about 2% per annum (as per PGA1), its Net Interest Margin (NIM) comes to about 11.85% (i.e.13.85% minus 2%) on an average. The industry average NIM for the US commercial banks is about *2.5% to 3.5%,* as estimated by McKinsey & Company (Buehler et al., 2013: 12). The rationale for charging interest @ 15% on all loans of GA was discussed in Section 9.3.5.3.3 (Rate of Interest for Loans).

Figure 9.6 displays the financial viability trend for GA, and shows the annual interest income as the percentage of its annual expenses, total income, and donations and contributions during the period 2011 to 2015.

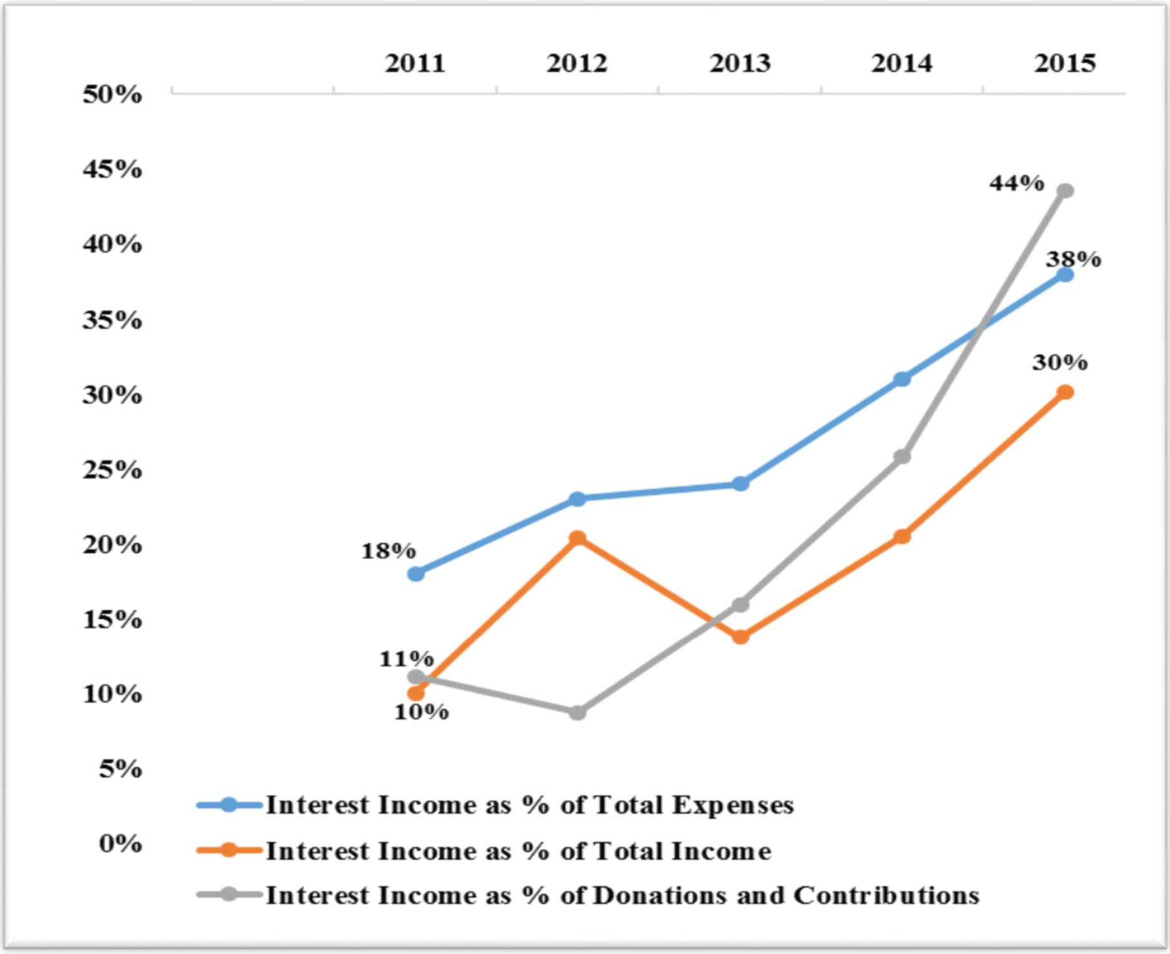


Figure 9.6 Financial Viability Trend of GA

Source: PWC (2016; 2015; 2013; 2011).

Since 2011, despite a persistent increase in interest income (see Table 9.7), GA is still dependent on donations and contributions to fuel its growth. Since the beginning of GA's operation in 2008, interest income, as at the end of 2015, constitutes 30% of total income or 44% of non-operating income, covers only 38% of the total cost of operation.

However, the continued increase in interest income is a positive trend towards minimising dependency on external financial support. This trend, however, does not indicate GA's ability to fast-track its financial viability despite maintaining its loan quality measured by its recovery rate. The viability of GA is further explored in the following section.

9.3.6.3 Key Factors for Branch Viability

With a branch banking approach, the overall viability of GA is dependent on the ability of its branches to attract a sufficient number of enterprising borrowers and in generating a surplus to cover costs of supervisory offices. Unlike GB, GA does not have an internal segregation of funding cost among its different hierarchies. The cost of procuring funds is, therefore, directly applied to the OPEX (Operating Expense) of a branch office.

Despite maintaining a high recovery rate; along with a steady growth of its customer base, loan portfolio, matching grants, donations, and loans, GA is not expected to achieve financial self-reliance within next 10 years. Based on the growth ratio of annual interest income to total annual expenses during the previous five years (see Table 9.7 and Figure 9.6), it might take more than a decade for GA to achieve financial break-even. PGA1, however, reasoned that:

> *Grameen America had to be cautious in its adaptation strategy of the GB features in a society with a formal microbusiness environment and systemic issues to deal with. Therefore, time-wise, the learning curve is longer than in Bangladesh or countries with similar socioeconomic profiles.*

Given the current circumstances in the USA, PGA1 suggested that the viability of a typical GA branch could be achieved with the following combination of number and amounts, within five years from the date of its commencement.

1) *A total of 4,000 members with 3,500 active borrowers organised in 200 Centers with 4-to-7 Groups in each Center.*
2) *Ethnic homogeneity in group formation is to be maintained for better cohesiveness and achieving effective social-collateral.*

3) *A USD 1,500 first-time loan for a new borrower without any credit history to be repaid in weekly instalments. This loan is to be provided @ 15% simple interest per annum with an increase @ 20% or USD 500 after every loan cycle of 6 months maintaining a loan recovery rate of 99.5%.*
4) *A full-fledged management team consisting of one Branch Manager and nine full-time Center Managers to manage the operation.*
5) *Staff training costs of the branch to be kept outside the OPEX during the first five years of its operation.*

In addition to these factors, PGA1 suggested that *a faster financial viability of a GA branch could be achieved where borrowers become quickly eligible to enterprise and car loans.* The resultant higher average loan outstanding contributes to higher interest income.

Another critical factor impacting the financial viability is the programme location to achieve an optimum combination of density of population and poverty rate. In the USA, despite the higher rural incidence of poverty (HAC, 2014; Farrigan, 2015), all the branches of GA are located in major cities. PGA1 argued that:

> *Cities have a larger number of low-income individuals due to higher population density, providing the scope for reducing the supervision cost in a smaller supervision radius. Borrowers also have relatively better opportunities to market the products in the urban areas relative to the sparsely populated rural areas.*

The analysis of GA financials and socio-demographic factors reveal that under proper organisational format, and supportive legal and regulatory regime, the viability of microfinance social business in the USA is achievable. However, it can be argued that given the circumstances in the USA, it might be difficult to have an ideal situation leading to the combination of all the five factors, mentioned above, to achieve faster financial viability of a GA branch. But given the short time-span of GA operation within the prevailing contexts, cautious optimism is the best way to describe the prospect of its financial self-reliance.

9.4 Conclusion

The US Government's current policies, promulgated for effective remission of persistent inequality, poverty, and financial exclusion among a significant number of people in the USA, appear to be inadequate. The enactment of the Community Reinvestment Act (CRA), the establishment of National Community Investment Fund (NCIF), and the legislation by the US Congress for making the low-cost investment targeting microenterprises through the US

Small Business Administration (SBA) failed to expand microfinance outreach in the USA. The mission-driven community banks, operated under federal banking regulations, automatically screen off low-income and unbanked people unable to provide any asset-backing, or at the least, a co-signer, guaranteeing the loan repayment. The oligopolistic dominance by the profit-maximising depository institutions in the US banking industry seems to have choked innovation ignoring the social-collateral model or other forms of contract enforcement, purporting to protect investors and mitigate financial market instability.

The available evidence suggests that the US microfinance market is underserved. The estimate by PGA1 that less than 1% of the unbanked (DeNavas-Walt and Proctor, 2015; Glinska, 2014; Narain et al., 2015) and poor (Bjerga, 2016; Batley, 2015) population reached by the existing microfinance organisations, seem to confirm the reality. One reason for this low outreach appears to be a flawed definition of microfinance. The definitional ambiguity has resulted in resource deployment to relatively well-off segments of the US population who are capable of borrowing larger loans under conventional collateral and other forms of repayment guarantee. The findings by Miller et al. (2011) that SBA or SBA sponsored finance did not reach the businesses with less than nine employees seemed to be a natural outcome in a situation where microfinance is considered as the lower segment of small business loans.

Schreiner and Morduch (2002) cited the safety net programme (SNP), the deep apprehension about social-collateral in microlending, and regulatory constraints as the three important obstacles for microfinance growth in the USA. PAG1, Yunus (1991; 2006a), and Latifee (2001) also insisted that SNP and regulatory constraints are two of the formidable barriers in operating financially viable microfinance organisations. In a market-driven welfare economy like the USA, SNP is a stand-alone strategy lacking any mechanism to incentivise the working-age non-disabled welfare recipients in transiting to either self-employment or connecting them to income opportunities.

Sociocultural diversity in the USA does not pose a key obstacle in replicating the GB model. Rather, the non-inclusive nature of the financial market and restriction around lending outside standard collateral are significant hurdles. Given the regulatory constraints and the general perception of a niche or a small market size, microfinancing in the USA is confined to charity or welfare operations run by not-for-profit organisations. Therefore, these institutions depend on grants and low-cost finance from the Government including receiving tax exemption and lack any motivation to be self-reliant.

Microfinance in the USA is still viewed as a stop-gap solution to temporary financial hardship with low-cost affordable loans. However, a number of commercial microfinance and fringe lenders are operating in this sector, lending both microenterprise and consumer loans at high interest and various fees and charges. The unfavourable credit conditions coupled with asset-based collaterals or third party guarantees, or guarantor co-signers, make it difficult for individuals dependent on food stamps or in similar economic situations, and therefore, are automatically excluded by commercial lenders.

In the seven years following GA's establishment in 2008, accumulation of USD 31 million in net assets, and defraying 38% of its total expenses as at the end of 2015, was a significant achievement. The positive trend towards financial self-reliance was possible by maintaining a near 100% loan recovery following a social-collateral banking paradigm. GA is now the largest nationwide microfinance organisation and the only women-centric microfinance social business enterprise (Yunus et al., 2010; Yunus, 2010) in the USA. The generous grants and donations that GA received to fuel its growth seems to be invested favourably, generating self-employment to 75,347 women entrepreneurs and creating 79,115 jobs as at the end of June 2016 (GA, 2016).

The performance trend of GA demonstrates its success in handling various social issues purported to inhibit microfinancing outside the conventional lending model. One of the key achievements of GA has been the demystifying of many entrenched beliefs and institutional anathema regarding relevancy of a microfinance model, primarily based on the concept of social-collateral (Dufhues et al., 2011; Khandker, 2012; Postelnicu et al., 2013), in an individualistic, multicultural, and developed capitalistic society.

It is, however, conspicuous from GA's overall performance that under its existing legal structure, high salary cost, and professional fees proportionate to its total expenses, the company might find it challenging to achieve financial viability over the ensuing decade. Being a large country, manual supervision of loan operation not only entails extra expenses but also takes a toll on staff time. While the M&E is cloud-based using gBanker software, the extensive use of ICT in loan disbursement and monitoring might be useful in the cost minimisation effort.

GA's failure to mobilise savings has restricted its ability to generate resources to replenish the shortfall in operational incomes through investing in high yielding investments. An alternate that GA might consider for a faster financial viability is to legally restructure the company into a CDFI Credit Union, a depository organisation in the USA (Summers, 2001). This would provide the organisation an ample leeway to mobilise its customers' deposits, and concurrently being eligible to receive grants and donations from both public and private sources. However, this direction might entail conforming to Federal laws and regulations similar to those of banks and thrifts. Given this possibility, under the existing regulatory regime in the USA, it is reasonable to assume that GA is consciously following the current legal structure, unless a new approach in its operational strategy is deemed critical or a favourable law is enacted permitting the establishment of microfinance banks, following the GB model.

The concluding chapter overviews the findings and implication of this research in relation to the present three Research Objectives (RO) and four Research Questions (RQ) outlined in Chapter 1.

Chapter 10 Conclusion

10.1 Introduction

This thesis investigated the scope for replicating the microfinance social business model of GB, in Australia. Replication and or adaptation of any model or an approach in different socioeconomic contexts entails known and unknown contingencies, some of which can be challenging. Institutional theory (Scott, 2009) and contingency theory of organisations (Donaldson, 2001) underpin this research. In Chapter 2, these two theories explained the rationale of institutional influences on the microfinance model of GB in calibrating its legal structure, internal governance and external engagement to be compliant to the socioeconomic and regulatory contexts in which it operates. The distinct variations between GB and its replication GA exemplify this process. The attainment and continuation of efficiency in a given society are, therefore, an ongoing progression for a social business enterprise like GB to attain fit by embedding socially appropriate practices within a broader canvas of *cultural - cognitive, normative and regulatory* (Scott, 2009: 470) aspects of the environment.

Chapter 6 (Research Design) outlined the present research process. The chapter provided a justification for adopting a qualitative research approach, and the process of data analysis and validation from multiple and multi-level sources to ensure the objectivity. The conceptual framework in Figure 6.4 illustrates the connection between the two underpinning theories and different socioeconomic, legal and regulatory factors in conducting this research.

Given the theoretical underpinnings and overall design of this research, three Research Objectives (RO) and four Research Questions (RQ) provided boundary conditions for this thesis. Figure 10.1 illustrates the interplay between the ROs and RQs. For example, RO1 (i.e. to map the poverty and inequality contour and its nature in Australia) is addressed by an in-depth review of various poverty approaches and their implications in Chapter 3 as part of identifying the nature and causes of Australian poverty followed by a detailed poverty mapping of Australia in Chapter 4.

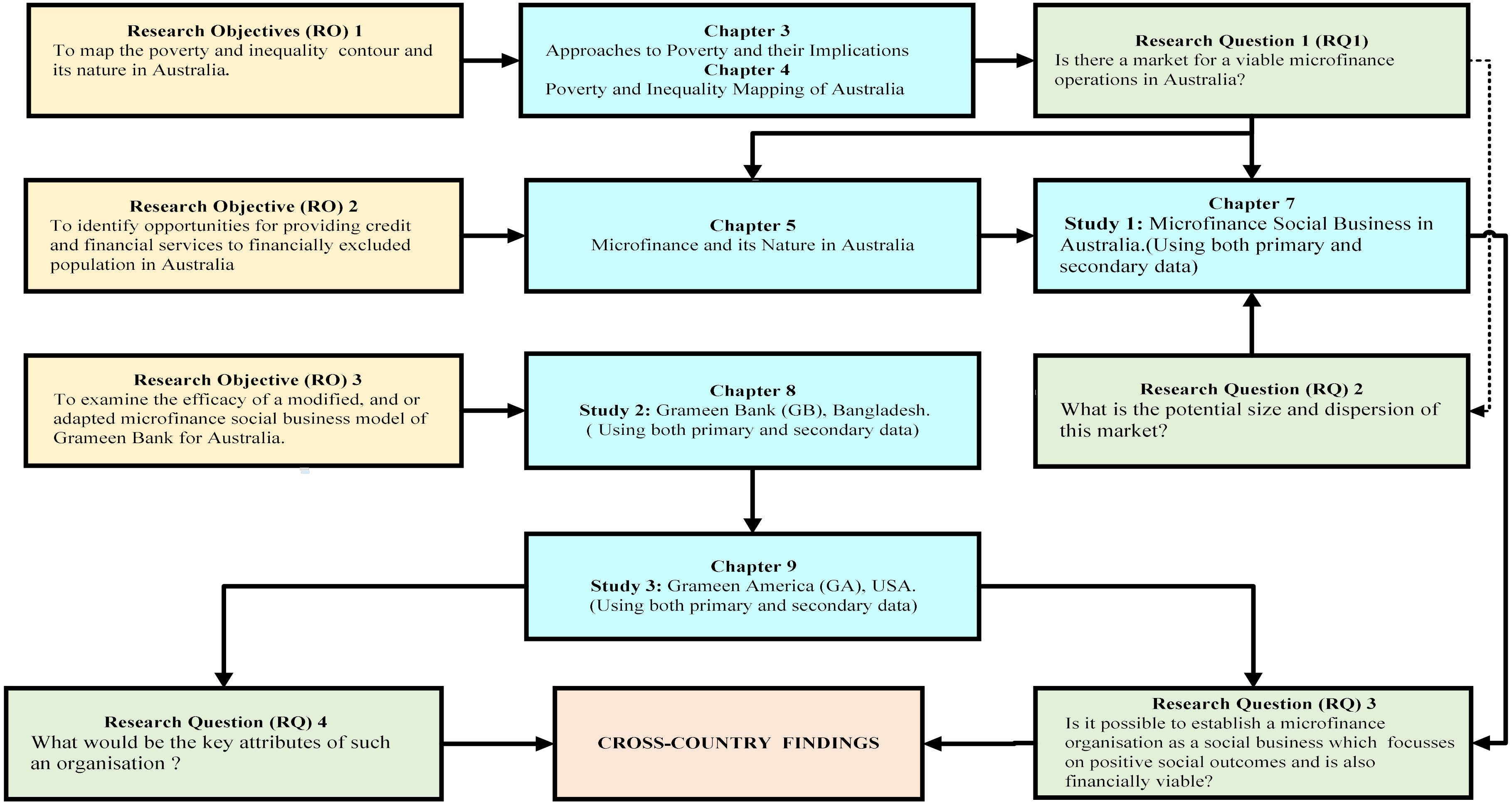


Figure 10.1 Synchronisation of Research Objectives and Research Questions in investigating GB replication in Australia

Chapters 3 and 4 provide the necessary information from a wide array of secondary sources on poverty and inequality in the exploration and analysis of the size of the Australian microfinance market.

RO2 (i.e. to identify opportunities for providing credit and financial services to financially excluded population in Australia), is addressed in Chapter 5 (i.e. Microfinance and its Nature in Australia) and Chapter 7 (i.e. Study 1: Microfinance Social Business in Australia). The findings from an in-depth review of a rich tapestry of extant literature in Chapter 5 were used along with the primary data in conducting Study 1 that investigated the potential of microfinance social business in Australia.

RO3 (i.e. to examine the efficacy of a modified, and or adapted microfinance social business model of Grameen Bank for Australia) led to the case studies of Grameen Bank (Chapter 8), and Grameen America (Chapter 9). These case studies are exploratory and explanatory in nature unravelling the organisational strategies, their essential features, and effectiveness in achieving socioeconomic outcomes of their operations. The best value principles from the microfinance organisations (MFO) mentioned above, operating in two different socioeconomic contexts are critically examined to answer the RQ3 (i.e. is it possible to establish a microfinance organisation as a social business which focusses on positive social outcomes and is also financially viable?). The lessons from GA, a GB replication in a developed country with similar socioeconomic structures, answer RQ3.

Study 1 supports the conclusion that there is a market for microfinance social business in Australia. This investigation identified a number of institutional and legal impediments regarding the establishment and operation of a microfinance model following the GB approach. The empirical evidence from GA in the USA infers that in the absence of any credible and serious ground-testing of a microfinance social business model in Australia, the prevailing institutional barriers against using social-collateral in microfinancing might be attributed to individual perceptions of practitioners. Institutional barriers might as well be construed as a systemic intransigence to perpetuate the conventional collateral-based financing mechanism. The experience of GA unravels strenuous efforts by the organisation to attain financial viability in a highly regulated, oligopolistic financial market. The comparative picture of socioeconomic, demographic, legal and regulatory aspects of the three countries (i.e. Bangladesh, the USA and Australia) pertaining to microfinancing is presented in the cross-country findings in Section

10.2. The key attributes of such an organisation for Australia (RQ4) emerge from the cross-country findings and the empirical evidence from the adaptation strategy of GA in the USA.

10.2 Cross-Country Findings

The cross-country findings summarise the variations across three different contexts, identifying areas where the GB model needs to retrofit and or adapt to deliver optimum socioeconomic and financial outcomes in Australia.

The GB approach being a non-mainstream financial model is primarily designed for unbanked and underbanked populations in Bangladesh and countries having similar socioeconomic characteristics. Outright replicability while retaining its legal status as an organisation and many of its essential features would be challenging in Australia.

Since this thesis is based on a qualitative paradigm using the epistemological framework with a constructivist approach, the present findings are contingent upon the experiences of the informants who are the principal sources of primary data in each of the three studies. Multiple sources of secondary data are also drawn upon. This aspect of the research is consistent with the assumption that reality and knowledge are socially constructed (Packer, 2011; Crotty, 1998; Vygotsky, 1978) conveying aspirations and needs of a specific a society and its underpinning stimuli. The avoidance of an objectivist epistemology in this research facilitated in accommodating and interpreting various perspectives of microfinance practitioners and the basis of their actions and motivations. Within the context of a constructivist paradigm, Table 10.1 compares microfinancing across three different counties in the light of Scott's (2009) *Three Pillar of Institutions* (465) framework (see Section 2.3).

The variation in an institutional environment encompassing the whole gamut of socioeconomic and regulatory aspects shape the nature of institutions, define the market dynamics, influence regulations and policy prescriptions, and rationalise organisational approaches to achieve performance. While poverty and financial exclusion are present in the three countries (see Table 10.1), the normative and cultural-cognitive aspects including the legal and policy responses in each of the countries are different.

Table 10.1 Cross-Country Findings Using Three Pillars of Institutions Framework of Scott (2009)

DESCRIPTION	AUSTRALIA	USA	BANGLADESH	CLARIFYING REMARKS
SOCIOECONOMIC INDICATORS				
Total Population	22.68 million (2012)	315.8 million (2014)	158.5 million (2014)	Population data as used in the thesis
Population in Poverty or Various Forms of Deprivation	• 2012: Median income poverty (MIP): 18% (*n= 4 million*) • 2010: Social exclusion: 26% (*n= 4.5 million):* Age group 15+ • 2010: Multiple Deprivation:17% (*n=2.9 million):*Age group 15+ • 2010: Income poor:13% (*n=2.8 million):* Of all age groups	• 2014: Income poor: 15% (*n=47 million*) • 2015: Food stamps dependents: 14.5% *(n=46 million)*	• 1984: Absolute Poverty: 63% (*n=56 million*) • 2010: Absolute Poverty: 31% (*n=48 million)*	• SNP in Australia and the USA is holding people from falling into extreme poverty • MIP is based on people living below 60% household income level • People on Food Stamps are the poorest in the income rung in the USA • Poverty in Bangladesh is extreme poverty, also termed as Absolute Poverty by the World Bank and various international agencies
Gender Pay/Wage Gap	18.2	21.7%	23.1%	• Gender Pay/Wage Gap exacerbates women's socioeconomic vulnerability
Financially Excluded Population	2013:17% (n=*3.04 million*) Partially excluded was 2.86 million & fully excluded 0.18 million)	• 2013: Partial exclusion: 20% (*n=63 million*) • 2013: Total exclusion: 8% (*n=25 million*)	2010: 23% (*N=35 million*)	• Financial exclusion is explained in Section 5.2 • About I million small businesses are inactive in Australia for lack of finance; a missing-middle microenterprise segment
Informal and Fringe Money Lending	A growing market of an estimated annual transaction of AUD10 billion	A growing market of an estimated annual transaction of USD 7 billion	About 29% households	The informal borrowing in Bangladesh was reduced from about 90% in rural areas to about 29% in the last three decades
NORMATIVE AND CULTURAL -COGNITIVE				
Social and Ethnic Mix	Multicultural	Multicultural	Homogenous culture	Majority of population in Australia and the USA are immigrants from Europe.
Gender Rights, Awareness & Freedom	Women are equally treated; no restriction on their movement	Women are equally treated; no restriction on their movement	Conservative society; women generally are not free to move like men	Gender equality in all spheres of life in all the three countries (i.e. Bangladesh, Australia and the USA), is still not achieved

DESCRIPTION	AUSTRALIA	USA	BANGLADESH	CLARIFYING REMARKS
Social Perception of Microfinance	Low-cost, and or interest-free loans to alleviate hardship, lending mostly consumer loans (constitutes more than 90%)	Low-cost, and or interest-free loans to alleviate hardship, lending both consumer and microenterprise loans	Microfinance: A tool for poverty alleviation through self-employment	Microfinancing in Australia and the USA are inching to the idea of self-employment or microenterprise loans
REGULATIVE				
Financial System	• Highly regulated; collateral in lending is strictly enforced • Market dominance by 4 big banks (known as four pillars policy) Innovations contrary to their interests are choked • Non-inclusive financial system	• Highly Regulated; collateral in lending is strictly enforced • Out of about 6914 banks, 16 banks control 61% of industry assets • Non-inclusive financial system	• Highly regulated; collateral in mainstream lending is strictly enforced • Near perfect competition among the banks	• In both Australia and the USA a few big financial institutions dominate the market • Market dominance chokes innovation and competition • The four big banks in Australia has 88% home loans, and about 83% of all lending in the country
Policy and Operational Responses to Financial Exclusion	• Welfarist approach • CDFIs are financially supported by grants and low-cost loans • Establishment of SEDIF & CDFP • New Enterprise Incentive Scheme (NEIS)	• Welfarist approach • Establishment of CRA Fund • SBA lending to microenterprises	• Establishment of MRA • Institutionist approach • MFO: Both for profit, and not for profit • MFOs: Can take deposits	• MRA in Bangladesh permits taking deposits from clients and develop different savings and insurance products • Welfarist approach advocates only social outcomes • GA is registered as a welfare organisation
Safety Net Programme (SNP)	AUD 146 billion annually (35% of the Federal Budget)	USD 1 trillion annually	BDT 360 billion (AUD 6 billion) annually (14% of the Annual Budget of 2015-16)	SNP: The key policy tool to address inequality and poverty in Australia & the USA
Effectiveness of SNP	A temporary income support	A temporary income support	Insignificant impact on either reducing hardship or inequality	SNP maintains relative equality of poverty
Microenterprise Registration	Needs to be registered	Needs to be registered	Not strictly enforced	The larger microenterprises in BD needs registration
Privacy Law	Financial privacy is protected by law	Financial Privacy is protected by law	In social-collateral lending financial privacy is not enforced	GA has found a way to accommodate privacy law in their modus operandi in the USA

Note: Acronyms: ADI (Authorised Deposit-taking Institution); AP (Absolute Poverty); CDFP (Community Development Finance Pilot); MRA (Microfinance Regulatory Authority); NFP (Not for Profit); CDFI (Community Development Financial Institution); SEDIF (Social Enterprise Development and Investment Fund).

Despite over two decades of a mining boom in Australia, and the USA being one of the richest economies in the world, the socioeconomic indices in these two countries show no remission of the depth and extent of poverty and its various manifestations like deprivation, exclusion, and lack of access to finance. Although in absolute terms, the size of the Australian population in poverty and various forms of deprivation, are lower than that of Bangladesh and the USA, an estimated 18% poverty index with other consequences including social exclusion (26%), multiple deprivations (17%), and financial exclusion (17%), are comparable to the USA. Considering only the percentage of the financially excluded population, the potential microfinance market in Australia is relatively smaller compared to that of the USA and Bangladesh. However, considering the missing middle (Sale, 2010; Mazzarol, 2012) segment of the credit market, the microfinance market size tacks up to about 3.49 million potential borrowers of which only 5% is estimated to be reached by the current providers with 90% being consumer loans. The thriving fringe lending market suggests the existence of an underserved Australian market.

Contrary to the institutionist approach of GB and GA, the welfarist approach to microfinancing predominates a MFO's overall strategy in both Australia and the USA. The objectives and ethics of this strategy do not incorporate financial viability as one of the abiding principles. Fairness and affordability are stated to be the key ethical precepts defining the Australian microfinancing market, especially with respect to consumer loans.

As shown in Table 10.1, that normative and cultural-cognitive aspects in Australia and the USA are also at variance with that of Bangladesh. Individualism, privacy issues, gender rights, greater freedom to women, and the multicultural mix of the society are cited as reasons for the apparent reluctance to the group-based social-collateral model of microfinancing originating from a relatively homogenous culture. However, the experience of GA demonstrates that these issues are not insurmountable. Rather, gender rights, greater freedom of women, and individualism are conducive for implementing the microfinance programme of GA compared to a conservative patriarchal and patrilineal society in Bangladesh.

Women in Australia and the USA have more individual discretion compared to their counterparts in Bangladesh when deciding upon their lifestyle choices. A social-collateral based microfinance model seems to be consistent with microentrepreneurship in the USA. This phenomenon is expected to be similar in Australia. Empirical evidence from GA demonstrates that organising borrowers into a socioeconomic formation through Groups and Centers, following the GB model, is more of calibrating the concept to the local circumstances. The outright rejection of the process by practitioners in Australia might be short-sighted and premature.

Regulated societies such as Australia and the USA require microentrepreneurs to register their microbusinesses as legal entities with respective tax departments and local bodies including other legal compliance to update their income status pertaining to social welfare benefits, amongst others. It is not uncommon for undertaking these additional requirements to be regarded as burdensome. In Bangladesh, home-based micro businesses, in general are not required to report to tax authorities or to local bodies, making them less formal than their counterparts in Australia and the USA.

The SNP is a key strategy for addressing issues of poverty and inequality in Australia and the USA. However, the SNP appears to contribute to diminishing individual levels of motivation, self-reliance, and entrepreneurship among many unemployed people. Despite spending billions of dollars annually, and increasingly enforcing a mutual accountability of welfare recipients (Green, 2002) to maximise *social outcomes* by enhancing *individual and family capability* (COA, 2015a: 107), in an unequal society (Whiteford, 2013; Richardson and Denniss, 2014), the SNP does not prescribe a pathway or provide any incentives for exiting from welfare dependency. The SNP is like a state charity, temporarily relieving economic hardship of low-income individuals and maintaining *a relative equality of poverty among the welfare recipients* (Esping-Andersen, 1990: 27). The nature of poverty in Australia and the USA are relative. Without SNP, the economic hardship of low-income individuals would slip into extreme poverty prevalent in poor and developing countries. As a natural corollary to the concept of welfare capitalism (Marcuzzo, 2005; Schelkle, 2012 ; Chenoweth, 2008), the SNP has influenced the character of microfinancing in Australia with the preponderance being consumer loans.

Another interesting finding is that Australian MFOs are indifferent to any advocacy role for enacting separate regulation for creating microfinance banks or institutions similar to the GB model. Financial regulations in Australia appear to be inadequate with respect to supporting the low-income and financially excluded individuals. The regulatory environment in both Australia and the USA has all the indications that inequality in the financial sector is socially constructed, and vindicates the proposition that discrimination in lending practices by financial institutions based on income or asset criteria alone, can be addressed through appropriate regulations permitting innovations to be more inclusive. In Bangladesh, a separate microfinance regulatory authority (MRA) operates to monitor microfinancing activities without jeopardising the financial market stability and security.

In Australia, the major banks like the NAB, Westpac, and ANZ have partnered with not-for-profit MFOs to reach out to potential clientele, setting the strategic direction of microfinancing in the country. CSR principles underpin the partnership by these banks with their respective community organisations /MFOs. The microenterprises funded by these specialised organisations follow standard collateral requirements, where asset-less microentrepreneurs find little or no motivations to participate. With relatively easy and secured funding from the Government and banks, microfinancing in Australia seems to be treading the path of dependency and self-appeasement. The experience of GA is similar in the USA. In the absence of regulations to operate as a microfinance bank, it has made a difference in this space by applying the best value principles of the GB microfinance social business model in its modus operandi to harness maximum financial and social outcomes. The present findings, however, suggest that microfinance social business in Australia, though daunting, under the current socioeconomic and regulatory contexts, is achievable.

10.3 The Key Attributes of a Microfinance Social Business in Australia

The replication of GA, discussed in Section 9.3.5, is an example of how the GB model adapts itself to the broader socioeconomic, cultural, legal, and regulatory environments.Table 10.2 summarises the key attributes (RQ4) and the adaptation strategy of a potential microfinance social business organisation following the GB approach.

GA replicates GB modus operandi in a developed country through implemention of a group-based, social-collateral microfinance model of GB. The GA approach to microlending including its branch banking system, delinquency management, incorporation of a suitable social development agenda (SDA), and an effective cloud-based interactive on-line monitoring and evaluation (M&E) system are time-tested best value principles as evidenced in both Bangladesh and the USA.

The empirical evidence from GA underscores the importance of adhering to the best value principles and practices of the GB model as close as possible. The socicultural differences are found to be accommodative in the GB model. It is the process of adaptation to the cultural norms, social values, and expectations without abandoning the concepts that were found to be effective not only in Bangladesh but also overseas in different sociocultural and economic systems. The efficacy of a proposed microfinance social business model in Australia is dependent on its ability to incorporate the maximum number of key attributes identified in Table 10.2 through a stragey that would be able to achieve optimum congruence or fit with external contingencies.

A significant barrier to attaining fit or effectiveness of the GB model in Australia is the legal impediment restricting operation of the concept of microfinancing adhering to an unaltered version of GB. This has been the case in the USA as well, where GA had to register as a not-for-profit organisation with inherent limitations to fully operate as a social business enterprise.

Table 10.2 Adaptation Strategy and Key Attributes of a Potential Microfinance Social Business Organisation in Australia

DESCRIPITON	GA STRATEGY & ATTRIBUTES	PROPOSED STRATEGY & ATTRIBUTES	RATIONALE
LEGAL & REGULATORY			
Nature of the Organisation	A Not-for-Profit Organisattion	• A Not-for-Profit Organisation • Credit Union (CU)	• USA: Under the existing financial regulation GA can't operate as a specialised microfiannce bank • Australia: Registration as a CU gives more leeway to operate with GB principles of social business.
Governance and Management	Institutionst approach following Social Business Principles	Institutionist apporach following Social Business Principles	The social business aligns with the institutionist approach.
SOCIOECONOMIC			
Target Market	• Low-income working age women within poverty thresholds • Hispanic and Black Americans constitute about 90% borrowers	• Low-income working age individuals within poverty thresholds • Initially women only • Indigenous community and migrants • Missing-middle population	• 80% low-income population lives in the three States (i.e. New South Wales, Victoria, and Queensland); majority live close to large cities, towns & outer regional areas • Poverty and unemployment: High among indigenous community, and mainly non-English speaking migrants in Australia
Social Development Agenda (SDA)	• A charter of 5 commitments by the members • Foster economic bonding and mutual commitment and an urge to positive change	A set of commitments suitable for them to bond and mutually reinforce for economic improvement to be decided by the members/clients	SDA is not an impostiton. It is a mutual commitment by the members / clients to be followed meticulously
Issues of SNP	• Demotivator for many individuals • Enterprising and motivated individuals are not daunted	• Needs proper motivation of the clients • Less enterprising poor might be daunted and unwilling to join the programme	The welfare recipients for whom SNP support is crticial, find it hard to avail microenterprise loans for fear of losing welfare payments.
MODUS OPERANDI			
Loan Dispensation Strategy	• Group-based microfinancing i.e. social-collateral approach • Branch banking • Mostly in urban areas	• Culturally and gender homogenous groups • Branch banking • Major areas with high concentration of target clientele	In a multicultural & individualistic society like the USA, social-collateral model is being implemented. Australia can learn from this experience
Loan Products	• Microenterprise loans from USD 1500 to USD 15,000 • Car loans for product marketing	• Microenterprise loans from AUD 3.000 to AUD 20,000 • Missing-middle loans: AUD 20,000 to AUD 50,000	• Missing-middle (MM) in Australia are neither financed by the mainstream banks, nor the MFOs • About 1 million of MM are reportedly unbanked

DESCRIPITON	GA STRATEGY & ATTRIBUTES	PROPOSED STRATEGY & ATTRIBUTES	RATIONALE
Savings and Insurance	• The regulation prohibits mobilising customer savings • Voluntary savings are encouraged	• Not-for-Profit : The regulation does not permit; voluntary savings should be encouraged • If a Credit Union: Savings to be made mandatory; built-in insurance programme	• MFOs in Australia and the USA are non-depository organisations • Credit Unions (CU) are able to mobilise their customer savings
Cost of Loan	15% simple interest	• 15% simple interest, or • 5 to 10% above the existing unsecured business loans	• USA: Interest rates of MFOs : 8% -15% • USA: Commercial microfinance interest is as high as 80% • Australia: MFO interest rates: 0 to 35% APR
Delinquency Management	• Peer support & peer monitoring • Group and Center meetings • Workshops • An interactive online monitoring and evaluation system	• Follow the methods regularised by GA • If is registered as a CU: In addition to the above, create savings and insurance mechanisms as cushion against loan defaults	• In absence of tangible collateral, other than the assets/goods purchased by loans, a strong social-collateral and an effective monitoring are critical • The asset created by a microfinance loan remains mortgaged to the provider until the full loan repayment by a client owning the relevant asset
Monitoring and Evaluation (M&E)	• Cloud-based: Capable to track down in real-time the performance of any individual borrower • Extensive use of cloud-based technology to conduct financial transactions	• Cloud-based monitoring and evaluation system • Extensive use of cloud-based technology to minimise cost and increase efficiency	• Monitoring and evaluation are the key to success of any microfinance social business enterprise • The tyranny of distance can be minimised by using cloud-based financial transactionss & monitoring
Client Selection and Training	• Self-selection by the Group members and vetted by the management • Training on GA microfinance systems: loans, savings and credit building prior to loan disbursement	• Homogenous Groups (gender and culture) to be self-selected and vetted by the management • Training on loans, savings, credit building and the microfinance social business system	• No loans to be disbursed without someone being in a specific Group. • Prospective clients need to fully understand the process and be willing to abide by the rules
FUNDING SOURCES	• Nature of Fund: Donations, low-cost & interest free loans • Sources: Government, foundations, banks, individuals	• Nature of Fund: Donations, low-cost & interest free loans • Sources: Government, foundations, banks, individuals	• In the USA : CDFI credit unions receive grants and low-cost funds like other MFOs • In Australia: Customer Owned Bank (COB) like Bank Australia is a model that can be retrofitted as a micrfofinnace social business organisation

Legal restrictions compelled GA to abandon the in-built savings and insurance schemes from its modus operandi which were instrumental in not only rapidly building the asset - base of GB borrowers but were also used to shield them from hazards of loss and uncertainty in business. This strategy provided GB with loanable funds (i.e. deposits) to expand its operation without having to depend on grants and donations. The restrictive financial regulation diminished GA's operational manoeuvrability and delayed its financial viability. The Australian legal system pertaining to microfinancing is similar to that of the USA.

The voluntary nature of savings appears to be ineffective in the USA. However, the registration of an MFO under the credit union law in Australia and maintenance of the operational principles of microfinance social business, might allow an MFO to mobilise its customers' deposits. This process would enable an MFO to develop various savings products and offer a broad range of financial services to its clients. In the USA, CDFI credit unions are eligible to borrow low-cost loans and donations from both Government and private sources. In Australia, Fitzroy and Carlton Community Credit Cooperative (FCCC) (now merged with Bank Australia, a customer-owned bank or COB), First Nations Australian Credit Union (FNACU), and Traditional Credit Union (TCU) are some examples (see Table 5.5). Though in the GB model, Groups and Centers are not registered into formal entities, the ownership by borrowers is analogous to the design of a credit union per se.

Irrespective of the nature of the organisation (i.e. for profit or not-for-profit), the governance and management strategy of the proposed organisation needs to align with that of social business principles to maximise social outcomes without compromising the goal to achieve financial viability. The experiences of GB and GA suggest that using cloud-based technology in financial transactions, monitoring, and supervision helps to reduce operating costs and enable a wider span of control without proportionate cost increases. The financial self-reliance and the ability to adapt to internal and external contingencies as part of delivering efficiency (Donaldson, 2001), are built into the operating principles of the GB model.The dual objectives of social outcomes and financial viability form the ethical kernel to avoiding the mission drift of the organisation in either way (i.e. becoming solely a welfarist organisation or a purely commercial enterprise).

A microfinance social business in Australia is expected to maximise its social and economic outcomes by targeting people within the poverty thresholds as well as the missing-middle segment of entrepreneurs who are denied loans by the mainstream financial institutions under conventional collateral mechanisms. The Australian indigenous community and non-English speaking immigrants (non-MES) would be better target markets, to begin with, because of their relatively high prevalence rates of poverty. Focussing on women, a GB and GA strategy is found to bring maximum socioeconomic outcomes among the low-income population.

Given the Australian circumstances of a comprehensive SNP similar to that of the USA, it might be difficult to motivate the lowest echelon of the income poor for whom government doles are critical in maintaining their bare necessities. However, a loan being a liability and not income, does not affect welfare payments unless its investment generates earnings.The clients' selection and training in a GB modelled microfinancing arrnagement are standard practices. The attributes mentioned above were refined over the years and applied to all the successful GB replications worldwide, GA included. Australia can learn and adopt these strategies in designing a microfinance social business suitable for its low-income and financially excluded populations.

As a social business enterprise, determination of an appropriate cost of loan (i.e. interest) is critical. Due to small loan sizes and the relatively high cost of supervision, the recommended interest rate for loans might range from 5%-to-10% above the prevailing unsecured business loans in the country or any other rate (s) that would be appropriate to chart the organisation to financial self-reliance in the-medium-to-long run, without being exploitative like the commercial microfinance in the USA or fringe lenders in Australia or elsewhere. Incorporating these criteria mentioned above, with the formula in Section 7.3.1.2.2, might be useful in determining an appropriate interest rate for a microfinance organisation.

The GA's experience has reaffirmed that a microfinance social business has a long gestation period to be financially self-reliant despite the access to multiple sources of funds. Even under a supportive regulatory environment in Bangladesh, the subsidy dependency index in GB was quite high during the initial years of its operation. Therefore, in the case of Australia as well, initial funding comprising of donations and low-cost loans, and maintaining high loan recovery rates, is critical to achieving financial viability in the medium-to-long term in a well-designed and efficiently run MFO based on social business principles.

10.4 Implications

The implications of this thesis are summarised in terms of theory, policy and practice.

10.4.1 Implications for Theory

This thesis makes a substantial contribution to our theoretical understanding of a social business for addressing the problems of poverty and financial exclusion in three principal ways: design of a model, distributive justice and equity in banking, and development of a conceptual framework for research in microfinancing.

First, the effectiveness of microfinance as a financial inclusion and poverty alleviation tool is dependent on the way it is packaged and delivered to recipients. The design of the delivery-recovery system, usually called modus operandi, determines the outcomes of the model. For example, interest-free consumer loans, provided by Good Shepherd in Australia, with tie-up arrangements with creditors for loan repayments by the Centrelink for welfare dependent borrowers, result in supporting a temporary need for cash. The system neither creates a permanent income source nor links a borrower to economic value chain. The loan provider, in this instance, being a charitable organisation, is also financially dependent on grants and donations. This thesis unfolded the inclusive nature of the social business design and the innovative process to reach out to those who are unable to provide asset-based collaterals for their borrowings. The use of institutional theory and contingency theory of organisations explained the underlying logic and rationale of the concept and its efficacy.

Second, this thesis highlights that the concept of asset-based collateral, while helping to *mitigate inefficiency* (Inderst and Mueller, 2007: 828), and information asymmetry (González and Ozuna, 2012; Sufi, 2007) in lending, is inadequate when seen through the theoretical lens of distributive justice (Konow, 2003; Roemer, 2002; Schokkaert, 1994; Greenberg, 1987; Jasso, 1980) and equity in banking (FTC, 2009; Ritter, 2012). A significant proportion of individuals, *around 2 billion people globally do not use formal financial services, and more than 50% of adults in the poorest households are unbanked* (Hug, 2015: 36), is a reminder of this conceptual flaw.

The present findings corroborate to the theoretical assertion by Scott (2009) that:

> *Like all systems, institutional arrangements are subject to entropic force*s*, and stable institutional arrangements are challenged, undermined and gradually replaced with different beliefs rules, and models* (472).

Therefore, in an increasingly monetised economy, the accommodation of multiple modes of innovative and contemporary contrivances in finance appear to be a logical proposition for equity, growth, and sustainable development.

Finally, the development of a conceptual framework in Figure 6.4 in this thesis, contributes to the knowledge of a research process in the investigation of organisational efficacy relevant to microfinance social business replication in multiple socioeconomic and regulatory domains. The framework takes into cognisance the contextual relevance of an organisation and encapsulates broader institutional elements summarised by Scott (2009) in his *three pillars of institutions* (465), in congruence with organisational goals to achieving optimum outcomes by adopting appropriate organisational designs with the ability to respond to contingent circumstances (Donaldson, 2001). This framework can be used as an example and a guide for future researchers in undertaking similar research projects having ramifications across economic and sociocultural boundaries.

10.4.2 Implications for Policy and Practice

This thesis is possibly the first to investigate the replicability of a microfinance social business in Australia. The thesis consists of three studies of microfinance practices across Australia, Bangladesh, and the USA. The dearth of literature on financially viable microfinance opportunities in a developed country's context makes this research unique in understanding the underlying sociocultural, legal and policy issues when adopting a strategy that originated from a developing country. Thus, the present thesis contributes to the existing literature in understanding the regulative, normative, and cultural-cognitive factors of microfinance practices, and their underpinning motivations across developing, and developed economies.

Second, the cross-country findings and the key attributes emerging from the adaptation strategies have revealed that in Australia, most of the MFOs (see Table 5.5) implement what seems to be a corporate social responsibility (CSR) agenda of banks, one of the primary funding sources, supported by Government grants and philanthropic donations. As a concept, CSR is a corporate philanthropy and dependant on the will and ability of relevant organisation(s). These MFOs, registered as philanthropic or benevolent organisations, operate on welfarist approach providing mostly consumer microfinance to their customers. Owing to the nonviable nature of the above organizations, a logical way forward is to formulate policies transitioning towards more sustainable strategies.

Third, this research supports extant research that poverty and exclusion are associated with systemic flaws that exacerbate and perpetuate socioeconomic inequalities (Yunus, 2009; Yunus, 1993) that deprive citizens of their freedom to choose and access societal opportunities (Sen, 1993; Alkire, 2002). The multidimensional aspects and manifestation of poverty and exclusions were investigated in this thesis to understand causalities and remedial measures including the replicability of microfinance social business in Australia. The findings are additions to the existing literature on ongoing discourse and policy options in search of a financially viable microfinancing strategy.

Fourth, the emerging reality of persistent poverty, inequality and financial exclusion impacts the Australian welfare system with the Commonwealth Government's budget cuts necessitating market-based solutions and shared responsibility. Any new policy needs to recognise that wherever possible, the unemployed, seasonal and part-time employed, and working age welfare dependent individuals be offered a pathway to self-employment or support to be economically self-reliant. This thesis suggests that microfinancing following the GB model might be an appropirate policy option.The issue of financial viability of such an organisation might be mitigated by allowing it to function like an authorised deposit taking institution.

Fifth, this thesis contributes to the literature on sustainable and pro-poor economic development. It also adds to the knowledge on inclusive growth, demonstrating practical applications of bottom up socioeconomic strategy, financial inclusion and poverty alleviation across developing and developed nations.

Sixth, a social business being a product of market driven capitalistic paradigm, its effectiveness to thrive is dependent on existing policies regulating the market. But the core value proposition of the capitalistic mode of economic governance is not driven by equity or social justice, but by profits and growth. The existing market is found to protect its domain of systems and procedures to maintain the core value proposition of profits and growth. Concepts like CSR, social enterprise and formulation of the United Nations Global Compact (UNGC) principles were promulgated as appendages without affecting the laws and regulations that control the market and its principal beneficiaries. Therefore, it is a reminder that enabling policies and regulations are essential to fostering the pro-poor and inclusive financial system.

Finally, the adaptation strategies and key attributes identified in this thesis might be used as overarching guiding principles in the establishment and operation of a microfinance social business in Australia. Etzensperger (2014) reported that with the improvement of the institutional environment for microfinance institutions - *both in terms of regulatory supervision by authorities and market infrastructure* (2), global microfinance markets are projected to expand at the rate of *10% to 15% in 2016* (Hug, 2015: 3). Furthermore, Etzensperger (2014) predicted that local sources of funds are expected to finance this growth. Australia could be part of this journey by enacting enabling regulations and policies.

10.5 Limitations and Further Research

Being a qualitative research, the subjective interpretation of experiences in this thesis might always be open to further scrutiny (Morse and Richards, 2002; Morse, 1989). There may be arguments that since qualitative research *produces findings not arrived at by means of statistical procedures or other means of quantification* (Strauss and Corbin, 1990: 17) and instead, *the phenomenon of interest unfold naturally* (Patton, 2002: 39), this thesis might lack quantifiable generalisability of its findings.

However, the aim of this thesis and the key research questions have determined that the nature of this research be qualitative. Quantitative research supported by *the positivist or scientific paradigm, leads us to regard the world as made up of observable, measurable facts* (Glesne and Peshkin, 1992: 6), and does not capture the diversity and richness of society, culture, organisational behaviour, the rationales of social values and ethos that form the basis of institutional building process (Creswell and Clark, 2011; Hoepfl, 1997; Shah and Corley, 2006). Accordingly, it can be argued that limitations associated with this thesis being qualitative might be value laden. Qualitative researchers can challenge a concept or find new approaches that unravel deeper meaning and insights into management, organisations, and societies (Bansal and Corley, 2011).

While the experiences and insights of the informants constituted the principal sources of primary data for the current three studies, the chapters on poverty and inequality mapping, and microfinancing and its nature in Australia, mainly used multiple sources of secondary data. Though in this instance, the use of secondary data can be taken to be a strength, as these data are completely free from the personal bias of the researcher in influencing the research outcomes, there may be counter arguments construing this to be a weakness. This argument arises on the ground that unfiltered data have more original flavour and purpose-related objectivity to a research topic.

On the positive side, this thesis is based predominately on contemporary information and data. Given the importance of developing alternative economic management tools to address the issues of exclusion, inequality, and poverty, an in-depth longitudinal research (Menard, 2002; Ployhart and Vandenberg, 2010) would be useful to reconfirm and further validate the research findings. It is recommended that longitudinal studies should employ both primary and secondary data, and investigate various forms of discriminatory practices in the areas of health, education, ethnicity, gender, and financial opportunities. The usefulness of a longitudinal research, though time-consuming, would time-track and identify patterns of socioeconomic and systemic causes of poverty and exclusion in a changing canvas of a multicultural society. This information would be useful in recommending policies and regulations in support of designing appropriate tools, institutional mechanisms for inclusive and sustainable growth of the economy.

10.6 Reflections

Australia appears to have successfully camouflaged the darker sides of poverty and exclusion through a comprehensive safety net programme (SNP). The SNP, a seemingly Band-Aid strategy, funded by the Australian Government from its revenue budget rather than an investment per se, is a temporary measure in a capitalistic welfare economy. Therefore, options like microfinance social business and similar strategies that can connect working age unemployed, low-income and unbanked people to the economic value chains are inclusive in nature and develop under supportive regulatory environment.

It is evident from GA's experience that despite the adaptability of GB approach in a developed country's sociocultural environment, many of its important features had to be shredded to comply with regulatory restrictions in the USA. With analogous sociocultural and legal environments, the replicability of the GB model in Australia is likely to confront similar challenges like that in the USA. Despite the evidence of a successful mitigation of normative and cultural-cognitive issues by GA, it is likely to take some time to overcome the deep-rooted bias of Australian microfinance practitioners against social-collateral microfinancing strategy. There might be a need to undertake an action-research project in Australia, even on a small scale, to assess people's receptivity to the concepts enshrined in the modus operandi of the GB social business model for further recalibration.

It was proposed that structure or the design that fits the contingencies leads to higher performance and produces beneficial outcomes (Donaldson, 2001) and that organisational design and operational strategy are open to accommodate social norms and behaviours as critical inputs to obtain external legitimacy and support (Scott, 2009). The two underpinning theories in this thesis have aptly captured the resilient feature of the GB microfinance model. The operating strategy of GB appears to be in congruence with forces of change as demonstrated in its responsiveness to customer needs without compromising the integrity of the core values and ethical foundation of microfinance social business.

Finally, this thesis, based on information obtained from concrete replication evidence in the USA, analysis of multiple data from primary and secondary sources on broader institutional environment and organisations across three different countries, suggest that microfinance social business, following the GB model, is replicable in Australia. Efficacy as an organisation, both in terms of viability and social outcomes, are dependent on the extent to which an organisation has the ability to integrate and operationalise the number of attributes identified in this research.

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LIST OF APPENDICES

Appendix 1 Ethics Approval

RMIT UNIVERSITY

Business College Human Ethics Advisory Network (BCHEAN)

Building 108, Level 11
239 Bourke Street
Melbourne VIC 3000

GPO Box 2476V
Melbourne VIC 3001
Australia

Tel. +61 3 9925 5555
Fax +61 3 9925 5624

Notice of Approval

Date:	12 June 2014
Project number:	18592
Project title:	*Microfinancing as an Inclusive Financial Paradigm and its Viability as a Social Business Enterprise in Australia.*
Risk classification:	Low risk
Principal Investigator: Student Investigator: Other Investigator:	Professor Kosmas Symrnios Mr Masud Isa Dr Alan Montague
Project Approved:	**From: 12 June 2014 To: 04 March 2017**

Terms of approval:

Responsibilities of the principal investigator

It is the responsibility of the principal investigator to ensure that all other investigators and staff on a project are aware of the terms of approval and to ensure that the project is conducted as approved by BCHEAN. Approval is only valid while the investigator holds a position at RMIT University.

1. *Amendments*
   Approval must be sought from BCHEAN to amend any aspect of a project including approved documents. To apply for an amendment submit a request for amendment form to the BCHEAN secretary. This form is available on the Human Research Ethics Committee (HREC) website. Amendments must not be implemented without first gaining approval from BCHEAN.
2. *Adverse events*
   You should notify BCHEAN immediately of any serious or unexpected adverse effects on participants or unforeseen events affecting the ethical acceptability of the project.
3. *Participant Information and Consent Form (PICF)*
   The PICF must be distributed to all research participants, where relevant, and the consent form is to be retained and stored by the investigator. The PICF must contain the RMIT University logo and a complaints clause including the above project number.
4. *Annual reports*
   Continued approval of this project is dependent on the submission of an annual report.
5. *Final report*
   A final report must be provided at the conclusion of the project. BCHEAN must be notified if the project is discontinued before the expected date of completion.
6. *Monitoring*
   Projects may be subject to an audit or any other form of monitoring by BCHEAN at any time.
7. *Retention and storage of data*
   The investigator is responsible for the storage and retention of original data pertaining to a project for a minimum period of five years.

Regards,

A/Professor Cathy Brigden
Acting Chairperson RMIT BCHEAN

Appendix 2 Participants Information Sheet (Officials of MFOs & Practitioners)

RMIT UNIVERSITY

School of Management
GPO Box 2476
Melbourne VIC 3001
Australia
Tel. +61 3 9925 2000

Project Number: 18592

Research Project Title: Microfinancing as an Inclusive Financial Paradigm and its Viability as a Social Business Enterprise in Australia

INVITATION TO PARTICIPATE

Dear

Given your professional expertise you are cordially invited to participate in a research project being conducted by RMIT University. Please read this information sheet carefully and be confident that you understand its contents before deciding whether to participate. After reading this letter and deciding that you may wish to participate please contact Mr Masud Isa on +61 3 9925 1681 or email masud.isa@rmit.edu.au.

Who is involved in this project? Why is it being conducted?
This is an RMIT University doctoral research project being carried out by Mr Masud Isa from the School of Management. The project is being overseen by Professor Kosmas Smyrnios and Dr Alan Montague.

This study is being conducted to investigate poverty in Australia. The objective is to adapt a financially viable microfinance model being successfully used in other countries and apply the model to Australians identified as having low income.

Why have you been approached?
Being one of the officials of a microfinance providing organisation your experience would be immensely helpful to understand key issues from the perspective of a providing organisation. The research will endeavour to reflect on the information you provide based on your experience to design an approach that would be relevant, useful and truly beneficial for the people who need small amount of money to assist to enhance their economic conditions.

What is the project about?
The project is about research on the potential size and dispersion of microfinancing market in Australia and to explore the possibility of creating a microfinancing social business model that is self-sustainable and also focusses on positive social and economic outcomes for the low-income people in Australia.

If I agree to participate, what will I be required to do?
If you agree to participate, you will be interviewed by the Principal Research Student about your experiences as a key official of the organisation (re the name of the microfinance organisation). The proposed interview will take place at a time and a location convenient to you. The estimated time for each interview will be about 60 minutes. Questions will be based around your experiences in relation to providing microfinance services to the micro-borrowers and the differences of the approach and the structure from the mainstream financial services providers or similar other organisations. Participation in the interview will be voluntary and your responses will remain strictly confidential.

What are the possible risks or disadvantages of participating?
There are no risks foreseen in participating in this project. Your participation in this research project is entirely voluntary and you are free to withdraw your participation at any time.

What are the benefits associated with the participation?
There may be no direct benefits to you as a result of your participation. But your participation will definitely contribute to understanding the dynamics of microfinance organisation where you are working and help the researcher to compare your experiences and inputs with similar organisations in the effort to identify the key issues in microfinance delivery as an institutional process. A summary of findings will be made available to you upon request.

What will happen to the information I provide?
The data will be collected for a doctoral thesis. The collected data will be locked in password protected computers and locked cabinets. The collected information can only be disclosed to:

a) Protect you and others from harm, or
b) A court order is produced, or
c) You provide researchers with written permission.

No person other than the researchers will have access to the data. Data collected in this project will be retained for a five-year period and then will be destroyed.

What are my rights as a participant?

a) The right to withdraw from participation any time
b) The right to request that any recording cease
c) The right to have any unprocessed data withdrawn and destroyed, provided it can be reliably identified, and provided that so doing does not increase the risk for the participant.
d) The right to any question answered at any time.

Whom should I contact if I have any questions?
Please contact Professor Smyrnios for any questions or concerns in the address given below. You can also contact RMIT University Human Research Ethics Committee whose details are also provided below.

Yours Sincerely,

Masud Isa
On behalf, of
Professor Kosmas Smyrnios and Dr Alan Montague
School of Management
Building 80, RMIT University
445 Swanston Street
Melbourne, VIC 3000
Australia.

Contact details of the researchers/investigators

Principal Research Student	Chief Investigator	Co-investigator
Masud Isa	Professor Kosmas Smyrnios	Dr Alan Montague

Appendix 3 Participant Information Sheet (Microfinance Clients)

School of Management
GPO Box 2476
Melbourne VIC 3001
Australia
Tel. +61 3 9925 2000

Project Number: 18592

Research Project Title: Microfinancing as an Inclusive Financial Paradigm and its Viability as a Social Business Enterprise in Australia

INVITATION TO PARTICIPATE

Dear

Given your expertise you are cordially invited to participate in a research project being conducted by RMIT University. Please read this information sheet carefully and be confident that you understand its contents before deciding whether to participate. After reading this letter and deciding that you may wish to participate please contact Mr Masud Isa on +61 3 9925 1681 or email masud.isa@rmit.edu.au.

Who is involved in this project? Why is it being conducted?
This is an RMIT University doctoral research project being carried out by Mr Masud Isa from the School of Management. The project is being overseen by Professor Kosmas Smyrnios and Dr Alan Montague.

This study is being conducted to investigate poverty in Australia. The objective is to adapt a financially viable microfinance model being successfully used in other countries and apply the model to Australians identified as having low income.

Why have you been approached?
You have been approached because your experience with microfinancing would be immensely helpful to understand key issues from the perspective of a client.

What is the project about?
The project is about research on the potential size and dispersion of microfinancing market in Australia and to explore the possibility of creating a microfinancing social business model that is self-sustainable and also focusses on positive social and economic outcomes for the low-income people in Australia.

If I agree to participate, what will I be required to do?
If you agree to participate, you will be interviewed by the Principal Research Student, Mr Masud Isa, about your experiences as a microfinance client. The interview will take place at a time and a location convenient to you. The estimated time for the interview will be approximately 60 minutes. Questions are largely general and will basically concern your decisions to borrow and your experiences as a client. There may be some questions that may be a little personal and sensitive; and if you are not comfortable, you may choose not to answer them. Participation in the interview will be voluntary and your responses will remain strictly confidential.

What are the possible risks or disadvantages of participating?
There are no risks foreseen in participating in this project. Your participation in this research project is entirely voluntary and you are free to withdraw your participation at any time.

What are the benefits associated with the participation?
There may be no direct benefits to you as a result of your participation. A summary of findings will be made available to you upon request.

What will happen to the information I provide?

The data will be collected for a doctoral thesis. The collected data will be locked in password protected computers and locked cabinets. The collected information can only be disclosed to:

a) Protect you and others from harm, or
b) A court order is produced, or
c) You provide researchers with written permission.

No person other than the researchers will have access to the data. Data collected in this project will be retained for a five-year period and then will be destroyed.

What are my rights as a participant?

a) The right to withdraw from participation any time
b) The right to request that any recording cease
c) The right to have any unprocessed data withdrawn and destroyed, provided it can be reliably identified, and provided that in so doing it does not increase the risk for the participant.
d) The right to any question answered at any time.

Whom should I contact if I have any questions?

Please contact Professor Smyrnios for any questions or concerns – his contact details are given below. You can also contact RMIT University Human Research Ethics Committee whose details are also provided below.

Yours Sincerely,

(Masud Isa)
On behalf of
Professor Kosmas Smyrnios and Dr Alan Montague
School of Management
Building 80, RMIT University
445 Swanston Street
Melbourne, VIC 3000
Australia.

Contact details of the Researchers/Investigators

Principal Research Student	**Chief Investigator**	**Co-investigator**
Masud Isa	**Professor Kosmas Smyrnios**	**Dr Alan Montague**
masud.isa@rmit.edu.au	kosmas.smyrnios@rmit.edu.au	alan.montague@rmit.edu.au

Appendix 4 Participant's Informed Consent

School of Management
GPO Box 2476
Melbourne VIC 3001
Australia
Tel. +61 3 9925 2000

Project Number: 18592

Research Project Title: Microfinancing as an Inclusive Financial Paradigm and its Viability as a Social Business Enterprise in Australia

Dear Mr Isa,

1. I have had the project explained to me and I have read the participant information sheet
2. I agree to participate in the research project as described.
3. I agree to be audio recorded.
4. I acknowledge that
   a) I understand that my participation is voluntary and that I am free to withdraw from the project at any time and to withdraw any unprocessed data previously supplied (unless follow up is needed for safety).
   b) The project is for the purpose of research and it may not be of direct benefit for me.
   c) Privacy of any personal information I provide will be safeguarded and only disclosed where I have consented to the disclosure or as required by law.
   d) The research data will be protected during and after completion of the study. The data collected during the study may be published and a report of the project outcomes will be provided to me via email should I want to receive it. Any information which will identify me will not be used.

Name: ---**Signatur**e ---------------------------------------

Dated: -------------/-----------/**2014**

Appendix 5 Request for Assistance to Interview MFO Clients

School of Management
GPO Box 2476
Melbourne VIC 3001
Australia
Tel. +61 3 9925 2000

Project Number: 18592

Research Project Title: Microfinancing as an Inclusive Financial Paradigm and its Viability as a Social Business Enterprise in Australia

Subject: Request for assistance to interview microfinance clients in your organisation.

Dear

We are pleased to inform you that a doctoral research project with the above-mentioned title is being carried out under the School of Management of RMIT University. While Mr Masud Isa is the Principal Research Student, I, Professor Kosmas Smyrnios and my colleague Dr Alan Montague are the Chief Investigator and the Co-investigator of the project, respectively.

The project is about research on the potential size and dispersion of microfinancing market in Australia and to explore the possibility of creating a microfinancing social business model that is self-sustainable and also focusses on positive social and economic outcomes for people on low incomes.

As part of the research, the Principal Research Student Mr Isa needs to interview a total number of ----- microfinance clients and potential clients from leading microfinancing organisations. The interview will focus on their experiences as microfinance clients in relation to their motivation to borrow, purpose and use of their loans, challenges encountered, what they believe will make the system more effective and beneficial for them and their expectations.

Given that your organisation is one the leading microfinance providers we will appreciate the opportunity to interview ----- of your clients and potential microfinance clients in line with RMIT ethical guidelines and requirements. Each participant will be provided with a detailed plain language Information Sheet and an Informed Consent Form to be duly read and agreed to. The sample copies of these documents are attached here for your information.

Given that there are issues concerning participant confidentiality, may we take the liberty of recommending recruitment procedures that are consistent with RMIT ethical guidelines.

1) Would be grateful if you would randomly select – clients and – potential clients with a 50:50 gender split.
2) For selected participants please give each with a copy of Informed Consent Form and Participant Information Sheet which provide them with what will be expected during interviews.
3) Participants need to be informed that their participation is voluntary and they are free to withdraw from the interview at any stage.
4) For those clients who agree to participate we kindly request that you set up an appropriate time for interviews in your offices or at a mutually convenient locations(s).

If you have any question or need any further information, please do contact Professor Smyrnios or any of the investigators whose contact details are furnished below.

Yours Sincerely,

(Professor Kosmas Smyrnios)	**(Dr Alan Montague)**	**(Masud Isa)**
Chief Investigator	Co-Investigator	Principal Research Student

Appendix 6 Indicative Interview Questions (Officials & Stakeholders of MFOs)

The research student introduced himself before the commencement of the interview and then gave a brief overview of the research project. Informed consent was obtained from each participant. Interview questions were asked depending on the relevant official's location, responsibilities and nature of her/his organisation in Australia/ Bangladesh/USA. Being indicative questions, follow up questions or clarifying questions were asked based on answers by interview participants. *The following list represents the indicative interview questions*.

The nature of responsibilities the interviewee performs in the organisation

1. Would you please brief me about your background – the responsibilities you perform in the organisation ---- (name of the organisation)?
2. It would be useful to have some information about your experience working in this or in any other organisation that helped you in gaining very important insights in managing the tasks you are assigned with – could you elaborate, please?

About the organisation

3. Tell me about your organisation; its nature and objectives: Is it a social business enterprise? What are the key principles and objectives of your organisation?
4. What are the key factors for the success of (Grameen Bank) in Bangladesh? Would you be able to tell me the factors that led to its current success as an iconic body in the microfinance movement? How is it different from others in the same sector? (for GB officials in BD).
5. There are different types of microfinance organisations – some are pseudo-philanthropic outfits; others do recover a portion of their cost of operation and others are designed to recover the full cost of operation. In what category is your organisation classified?
6. Under what law is your company registered?
7. Why have you chosen this category and how does it fulfill the key objectives of reducing financial exclusion/poverty alleviation/ income inequality and creating self-employment?
8. Does your company receive any tax exemption or any other concessions from the government for engaging in microfinancing activities?
9. What are the sources and cost of funds for lending to the micro borrowers? What sort of problems do you face in procuring money for lending to approved clients?
10. Does your organisation self-finance from its microfinance operational income or does your organisation obtain finance from other sources?
11. What is the future strategy of your organisation as a microfinance provider regarding expansion, viability, providing bigger loans i.e. going beyond the micro loans, etc.?

12. Why do you think, your organisation is different from others in microfinance space or in addressing the issues of financial exclusion or income inequality or poverty? Can you elaborate a bit on it?

Legal and regulatory issues

13. What according to you are the key legal and regulatory barriers the microfinance organisations are confronting in Australia/Bangladesh/USA (question will depend on the location of the organisation*)*. What are your suggestions to address these barriers?
14. Do you think that there are sufficient depth and dispersion of microfinance opportunities in Australia/USA? If not why not and if yes, why in (Australia) are most of the microfinance operations are financially nonviable?
15. Would you be able to tell me the key legal and operational barriers that the microfinance organisations are facing in Australia? (participants from Australia).
16. Would you please tell me about the adaptation process of Grameen model in the USA through Grameen America (GA)? What are the key areas of adaptation and how is its operation different from that of Grameen Bank (GB) in Bangladesh? (CEO of GA).
17. What are the key barriers GA is facing in the USA? How did you initiate the process in the first place and what initial hurdles did you face? (to the CEO and branch managers).
18. The Community Reinvestment Act 1977 (CRA) in the USA mandates that banks disclose their community lending practices and performances to the poorer communities. How has this act helped GA to source lending funds for its clients? (CEO of GA).
19. What sort of policies of steps have the US/Australian Government taken to address the problems of exclusion and inequality? Are these found to be effective and if not what sort of suggestions do you think are appropriate to address these issues?
20. Is there any such act like the Community Reinvestment Act in Australia? (Microfinance organisation in Australia)?
21. Are there any social or institutional factors that are affecting microfinancing growth and its viability as a financial institution in Australia / the USA?
22. Are there any specific disablers in the regulation of financial services industry that are hindering the growth of microfinance banking/operation in Australia and the USA?
23. Do you have any specific suggestions that would create opportunities to launch microfinance social banks in Australia or similar socioeconomic settings for the low-income population?
24. In Australia, the Government has financed CDFI (Community Development Financial Institution) pilot and established a fund called SEDIF (Community Development and Investment Fund) to explore and experiment fair and affordable financial services for the poor. How do you evaluate such efforts and are Government policies lacking in this area?

25. Do you think the government in Australia has a greater role to play to proactively support funding and legislation to encourage microfinance and similar strategies? What are your specific suggestions as a practitioner of microfinancing in Australia?

Modus Operandi (This section may vary from organisation to organisation – GB and GA may have different approaches from that of organisations in Australia. The questions are to be modified according to the nature of such organisations)

26. Group-based approaches to micro lending have been hugely successful in Bangladesh and other developing countries. But there is an apprehension that this may not be appropriate for developed countries? Do you agree with this perception? If not, why not?
27. Did you ever try group-based microfinancing in Australia? If so, what's your experience? Can you please elaborate a bit on it?
28. Why are small groups important in microlending in your organisation? Is there any alternative to group lending in societies which are more individualistic in its social ethos?
29. Australia is a country not densely populated like that of Bangladesh or some other similar developing countries and the nature and dispersion of poverty are also different from that experienced in poorer countries. In this circumstance, what model do you think would be appropriate for Australia with a lower population density and dispersed locations in a big country? Would the model be financially viable as the number is small and not concentrated? (question to all the participants)
30. What are the key operational barriers does your organisation face? If these are beyond your resolution, how do you plan to overcome these barriers?
31. How do you choose your clients? Are there any specific criteria and if so, how these criteria have been developed and how effective are they regarding selecting the right clients who would be able to use the money to change their economic conditions?
32. The loan purposes in GB and GA are for income generation. In case of Australia/the USA, are loans provided to meet household expenses rather than to support income generating activities? How do you explain the strategy your organisation adopts from the perspectives of financial inclusion, self-employment and poverty alleviation?
33. What sort of strategy does your organisation follow in relation to purpose, tenure and other conditions and how have you decided on these strategies? Would you please elaborate on it? (participants from Australia and the USA).
34. Is the Social Safety Net (SNP) a barrier for microfinance growth in Australia for the able bodied and capable individuals? Do you have any suggestion as to how a portion of this money could be used to encourage microfinance lending for self-employment in Australia or is there any other

option that would be more effective in channelling this fund to create employment opportunities? (participants from Australia).

35. How have you decided the cost of your loans, its tenure and repayment strategies? How have these been factored into your overall cost and revenue structures? (all participants).
36. Do you think, viability of microfinance organisations is important for the continuation of the programmes without depending on the donations and grants? Would you please elaborate on this?
37. There are various savings and insurance schemes that you expect the clients to adhere to? Why are these so important to you and the organisation? Are these redundant or if not why not? Do you have any suggestions to improve these further? (all participants).
38. What aspects of the loan system of this organisation do you think are very crucial for the organisation and as well as for the clients? (all participants).
39. There are lot of businesses that do not fall in the category of microloans, neither do they qualify for loans from the mainstream banks. Don't you think, this segment of financially excluded businesses, often called the 'missing middle' need to be brought within microfinancing fold? If not why not and if yes, how and why?

Monitoring and Evaluation of microfinance loans (all participants**)**

40. Is it difficult to monitor the microloans and that so, many clients spread in big areas and on occasions difficult to find time to go to each of them physically thereby increasing costs for the organisation? How do you handle this important aspect?
41. What sort of monitoring strategy have you designed for the organisation to ensure operational transparency, loan quality and earning quality for the organisation and as well as for the clients?
42. How frequently do you monitor the loan progress and its utilisation? Why are these important?
43. Do you use technology i.e. online monitoring using a phone, the internet or any other device that helps in cost reduction, traveling to the clients' sites and even do it faster and more efficiently? Please elaborate.

Impacts (all participants**)**

44. Microfinance loans have not always been beneficial. What do you think are the key factors that result in difficulties in loan repayment? Are these because of a bad investment, wastage or loan diversion, natural calamity or loss of capital, sickness of the borrower or his/her family member or indifference to loan uses, lack of training or knowledge about the business or loan uses, etc.?
45. Some impact studies state that women are the better borrowers and users of microfinance loans? What's your view on it, and if yes why, and if not, why not?
46. Why are microfinance loans important for the financially excluded people? What are the benefits and pitfalls?

47. How do you handle the weaker clients who may struggle to repay the loans?

Grameen's specific Strengths (participants from GB, GT)

48. Why GB is special when compared with other microfinance organisations?
49. What are its key strengths?
50. Why do you think, GB is so successful in delivering social and economic outcomes and at the same time achieving self-sustainability? Can you elaborate citing some examples?
51. What important factors do you consider crucial in ensuring its continued financial viability and achieving its stated objectives to address the issues of financial exclusion and scourge of poverty?

Weaknesses (participants from GB)

52. What are the weaknesses of Grameen approach – the key ones that are crucial to addressing and be aware of?
53. How have these weaknesses affected GBs operation till to date?
54. Why do you think, GB will fail or crash – what may the causes?
55. GB is replicable in poor and developing countries where there are massive poverty and financial exclusion, and there is desperation for the poor to get some sort of loans and support? Why should be same for an economy where people may not be that desperate for are poor?
56. There are critics of Grameen who claim that GB does not target the poorest of the poor and often is very tough on the clients who fail to repay loans? What's your view on it?

GBs financial viability (participants from GB)

57. GBs history records that it became a financially viable institution within the first few years? How was it possible? Would you please identify the critical factors that made it happen?
58. A World Bank study in 1996 while appreciating GBs impacts on poverty alleviation and other socioeconomic indicators, reported that GBs profits were inflated due to an implicit subsidy that it received by way of low cost and no cost external funds since 1983. Without this generous inflow of money, GB would not make profits in the first ten years of its operation? How do you view this assertion /finding?

Market Size in Australia and the USA

59. Do you think, there is a sufficient number of low income and financially excluded population in Australia to establish microfinance social business like that of Bangladesh? How do you look at this possibility from the overall socioeconomic and demographic aspects of the country?
60. Is there a sufficient demand for microenterprise loans or loan for income generation? Would you please elaborate various perspectives of it from your experience as a practitioner in this segment?

Sociocultural Issues

61. Bangladesh is a very conservative society, and GB has boldly and successfully managed to give credit to the women in large numbers? How was it possible? I mean, what specific techniques and strategies GB adopted without serious religious and social backlash against it?
62. Do you think that the socio-cultural factors, in fact, were strength in disguise for GB to be effective in its message and its modus operandi?
63. GBs famous 16 decisions are often cited as a charter for ensuring social impacts and a change agent – how has it affected GBs operation and its viability as a special bank for the poor?
64. How have you addressed the issues of cultural and ethnic differences in the USA while forming groups and centres like the ones being followed in Bangladesh? Would you please elaborate on it? (participants from GA).
65. It is interesting to see that Grameen America has a list of decisions like 16 Decisions of Grameen Bank; would you please elaborate on it; how did you work on this and why is it relevant in the USA as well (participants from GA).
66. Do you think the social development agenda like that of Grameen Bank in Bangladesh is useful in the Australian microfinancing strategy? If you think it appropriate why so, and if not why not? Please elaborate on it. (participants from Australia).
67. Don't you think ethnic and cultural differences are not potent obstacles in designing group-based microfinance models like Grameen Bank in Australia? How do you look at this possibility? I don't see a single microfinance organisation in Australia following this best value principles. Why aren't the Australian practitioners following this example of Grameen Bank for a big number of Australian financially excluded individuals? (participants from Australia).

GB Overseas Replication

68. How many replications are currently financially viable overseas and where are these located? What percentage are these of the total GB overseas replications? (participants from GB & GT)
69. Do you think this approach is replicable in developed countries like Australia, Britain, Germany, Canada, the USA, etc.? If yes, why so? (participants from GB & GT)
70. The USA has a population of about 300 million, and there are Hispanic, and other communities who are disadvantaged and are struggling and they may have the desperation to follow GB regime of discipline and group dynamics. Why do you think, the same is applicable in countries like Australia and Canada with a very sparse population and a presence of a comprehensive social welfare system? (all participants)
71. What are the critical factors that you reckon are important for GB approach to be effective and financially viable in developed countries with sparse population and a fiercely independent mindset of people in spite of being in financial difficulties? (participants from GA, GB & GT)

72. GB received generous donor funds during its establishment and growth and now it is gradually drying up – what according to you would be the best way to procure funds in overseas replication of GB model, especially in developed countries like Australia, where the problem of financial viability is further complicated due to low population density, presence of social safety net for the financially struggling families, presence of charity philanthropic organisations, low interest rates and strict regulatory regimes controlling the credit dispensations by formal financial intermediaries – what suggestion do you make to work out a financially viable social business microfinancing model in this context? (participants from GA, GB & GT)
73. What do you think are the greatest barriers to operating a financially viable microfinance social business in Australia's context? (all participants)
74. Do you believe that there are opportunities here that would promote such approach, and if so what are these? (participants from Australia)

Appendix 7 Indicative Interview Questions (Borrowers/Clients of MFOs)

The research student introduced himself before the commencement of the interview and then gave a brief overview of the research project. The participants were from Grameen Bank (GB) in Bangladesh, and Grameen America (GA) in the USA. The questions were asked in Bengali to the participants from Bangladesh. After obtaining the informed consents, interview questions were asked. Being indicative questions, follow up questions or clarifying questions were asked based on the answers by the interview participants. *The following list represents the indicative interview questions*.

Personal history and decisions to borrow

1. Would you please tell me briefly about your background; your personal history and the reasons for you to borrow from Grameen Bank/Grameen America?
2. How did you come to learn about Grameen America/Grameen Bank?
3. Did you need to secure a support or endorsement from your family, friends or well-wishers to borrow from a formal microfinance organisation like this?
4. Did you borrow in the past from any private source or any other financial institution? Are you borrowing from any other source now? If not why not, if yes, why have you decided to borrow from this organisation and what is your experience?
5. Do you think there are many people who are financially struggling but are afraid to approach any institution to borrow? If this is the case, according to you, what is the root cause of this fear or hesitation? How do you think this fear can be removed?
6. Do you suggest that anyone who is financially struggling should borrow from a microfinance organisation like this? If not, why not? How she/he should manage the situation where finance becomes crucial to meet day to day expenses?

Loans- amount, use and cost

7. What type of investments have you made with your loans, and how did you learn the skills to use the money in the business you are doing now?
8. Why do you think, borrowing to invest for self-employment are the best way to avail microfinance loans? There are many who do not have skills to do business? Should they not borrow microloans? If not, why not? If yes, why and how will she/he repay her loans?
9. Was there any occasion that the money you borrowed from this organisation were not spent on any business? In this case, how did you repay your loan?
10. How many loans have you taken so far from this organisation?

11. Did this organisation organise training like financial literacy, business skills and account keeping and computing? If so, did you find these useful and what aspects of the training did you find useful and why so?
12. How did you choose to invest in this activity (the microbusiness she is investing her money)?
13. Is there a market glut or the demand issue if everyone invests or sells the same product in the locality?
14. How much interest or other costs do you pay for the loans? Is it too high for you? If not, why not?
15. Do you think that the loans should bear any interest at all? How much, and if not, why not?
16. There may be seasonality in your business; sometimes the sales are good, and on other times, it is bad or very low. How do you cope with such situations and pay your loans and interest to avoid defaults?
17. Was there any occasion when you struggled to service your loans? If so, how did you overcome the difficulty? Did the organisation help you during that period, if so can you brief me about it?
18. Microfinance loans are very tiny loans. What is the average amount of loans that one needs, according to your experience to start a microbusiness?
19. You are not providing any collateral for your loans? What are the motivations for you to repay your loans?
20. As you know, there are lot of microfinance borrowers who have failed to repay their loans? What according to you are the reasons for their failures to service their debts, and what dos the organisation need to do to avoid such a situation or recurrence of it?
21. Do you think that training, workshops, exchange visits are important in sharing the experiences of the borrowers? Why do you think so?
22. What have been the most crucial factors for your success? What was the most depressing time for you as a client and how did you overcome that?

Modus Operandi

23. I can see you to be member of a group. Why is it important for you to be in a group? How does it help you in your business or being in this organisation as a borrower? Does it play any role in ensuring discipline, use of loans or sharing each other's experience? Would you please share your experience on this issue?
24. Are the members in your group or the Centre helpful in any way in your business? If so, how, and if not can you explain briefly on it?
25. In circumstances where people do not provide any security for their borrowings what alternative do you think they provide as guarantees that convinces an organisationth to lend money? Would you like to share your own experience in borrowing from this organisation?

26. You are not providing any security to this origination against your borrowing? In case you default, what according to you are the recourse for this organisation to recover money from you?
27. What is the tenure of your loans? There seems to be different types of loans with varying interest rates and loan duration? Why do you think this loan duration/tenure is okay for you? (this question depends on the nature of GB and GA loan duration, types, interest rates etc.)?
28. The loans are paid in tiny weekly instalments? Do you propose or think that there are more convenient ways to repay the loans? What are the possible options?
29. There are different savings and insurance schemes to comply with as a borrower of this organisation. Why are these important to you as a borrower? Are these redundant? if not why not? (the question is more relevant for GB borrowers)
30. There is a programme known as social development agenda for GB, and Five Decisions for GA? Why is it so important for you as a borrower or a client of this organisation? How does it help you? Would you please brief me your personal experience and views on it?
31. What aspects of the loan systems of this organisation do you think are very crucial for the organisation and as well for clients?

Impacts, and Sociocultural

32. Experience tells that microfinance has not always been good for everyone. What according to you, are the key factors that result in difficulties in loan repayments? Would you be able to brief me about your views and experience, if any?
33. Some researchers assert that women are better borrowers and users of loans? What’s your persona views about it?
34. Do you think in the USA forming groups and centers are an obstacle due to various ethnicity and cultural differences? If so, how did you work around these issues? (for GA borrowers)?
35. Why are the microfinance loans important for financially excluded low-income people?

Appendix 8 The Sixteen Decisions of Grameen Bank

1. We shall follow and advance the four principles of Grameen Bank --- Discipline, Unity, Courage and Hard work – in all walks of our lives.
2. Prosperity we shall bring to our families.
3. We shall not live in dilapidated houses. We shall repair our houses and work towards constructing new houses at the earliest.
4. We shall grow vegetables all the year around. We shall eat plenty of them and sell the surplus.
5. During the plantation seasons, we shall plant as many seedlings as possible.
6. We shall plan to keep our families small. We shall minimise our expenditures. We shall look after our health.
7. We shall educate our children and ensure that they can earn to pay for their education.
8. We shall always keep our children and the environment clean.
9. We shall build and use pit-latrines.
10. We shall drink water from tube wells. If it is not available, we shall boil water or use alum.
11. We shall not take any dowry at our sons' weddings, neither shall we give any dowry at our daughters' weddings. We shall keep our Center free from the curse of dowry. We shall not practice child marriage.
12. We shall not inflict any injustice on anyone, neither shall we allow anyone to do so.
13. We shall collectively undertake bigger investments for higher incomes.
14. We shall always be ready to help each other. If anyone is in difficulty, we shall all help him or her.
15. If we come to know of any breach of discipline in any centre, we shall all go there and help restore discipline.
16. We shall take part in all social activities collectively.

Appendix 9 The Ten Indicators of Impact Measurement by Grameen Bank

1. The family lives in a house worth at least Tk. 25,000 (about AUD 417 at current exchange rates) or a house with a tin roof, and each member of the family is able to sleep on a bed instead of the floor.
2. Family members drink pure water of arsenic free tube-wells, boiled water or purified water.
3. All children in the family over six years of age are all going to school or have finished primary school.
4. The minimum weekly loan instalment of the borrower is Tk. 200 (about AUD 4) or more.
5. The family uses a sanitary latrine.
6. Family members have adequate clothing for everyday use, warm clothing for winter, and mosquito nets to protect themselves from mosquitoes.
7. The family has sources of additional income, such as a vegetable garden, fruit-bearing trees, etc., so that they are able to fall back on these sources of income when they need additional money.
8. The borrower maintains an average annual balance of Tk. 5,000 (about AUD 84) in her savings accounts.
9. No member of the family goes hungry any time of the year.
10. The family can take care of its health. If any member of the family falls ill, the family can afford to take all necessary steps to seek adequate healthcare.